EMPLOYEES' RETIREMENT SYSTEM
OF THE
STATE OF HAWAII

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2000

Prepared by the Staff of the:
Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813
(808) 586-1735 / (808) 586-1650

DAVID Y. SHIMABUKURO, Administrator

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BENJAMIN J. CAYETANO
GOVERNOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

December 29, 2000

The Honorable Benjamin J. Cayetano
Governor, State of Hawaii
Honolulu, Hawaii 96813

Dear Governor Cayetano:

It is my pleasure to submit this Annual Financial Report detailing the growth and strength of the Employees' Retirement System (ERS). For the three-year period ending June 30, 2000, the investment return was 11.3% per annum and 13.5% annually over the past five years. Unfortunately, during the past fiscal year, ERS' investment return was negatively impacted by a number of factors. Five interest rate increases by the Federal Reserve Board, growing credit problems and the piercing of the Internet speculative bubble resulted in a 7.6% rate of return.

As fiduciaries of the ERS, the Trustees continue to be concerned about our funding status. The Legislative Auditor in her April 2000 report to the Legislature noted that the ERS' one-half billion dollar unfunded liability could increase due to the 1999 law (Act 100) which used ERS' investment earnings above 10% to help balance the State and counties' budgets. The diversion of $346.9 million resulted in an immediate reduction of State and counties' employer appropriations. The 2000 Legislature subsequently authorized the extension of the pay back period for the 1994 and 1995 Early Incentive Retirement Program costs to nineteen years, further lowering current employer costs.

The Board strongly supports legislation to achieve the Board's long-term goal to become self-sufficient. To accomplish this goal, we advocate that the commitment made by the Legislature in the provision of Act 100 is honored. By allowing the ERS to retain all investment earnings hereafter, the Board can meet the challenge to ensure that the ERS will be adequately funded to pay for pension benefits that have been promised to current and future retirees.

We expect that within the next 13 years, we may have over 45,000 retirees and could be paying over $1 billion in pension benefits each year – double what we are paying today! These numbers will continue to grow as more baby boomers begin to retire. We must strive not to transfer today's retirement costs to our children and future taxpayers.

City Financial Tower
201 Merchant Street, Suite 1400 • Honolulu, Hawaii 96813-2980
Telephone (808) 586-1660 • Fax (808) 586-1677

Governor Benjamin J. Cayetano
December 29, 2000
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On behalf of the Board of Trustees, I would like to thank the loyal staff, investment managers, consultants and the many others who have worked so effectively to ensure the successful operation of the ERS.

Respectively submitted,

Koren K. Dreher, Chair
Board of Trustees

BENJAMIN J. CAYETANO
GOVERNOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

December 29, 2000

Board of Trustees
Employees' Retirement System of the
State of Hawaii
Honolulu, Hawaii 96813

Dear Board Members:

It is our privilege to submit to you the seventy-fifth Comprehensive Annual Financial Report (CAFR) of the Employees' Retirement System of the State of Hawaii (ERS) for the fiscal year ended June 30, 2000. Responsibility for both the accuracy of the data, as well as the completeness and fairness of the presentation, rests with the management of the ERS. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner to present fairly the financial position and results of the ERS' operations.

The ERS was established by the Legislature in 1925 to provide retirement, disability and survivor benefits for State employees, teachers, professors, county employees, police officers, firefighters, judiciary employees, judges and elected officials. On March 31, 2000, the ERS' total membership of 90,922 was comprised of 59,191 active members, 3,016 inactive vested members, and 28,715 retirees and beneficiaries. Participating employers include the State of Hawaii, City and County of Honolulu and the counties of Hawaii, Maui and Kauai.

This report is divided into five sections:

(1) Introductory - includes transmittal letters, the organizational structure, a Certificate of Achievement for Excellence in Financial Reporting, and a summary of benefit provisions and retirement options;
(2) Financial - contains a report of the Independent Certified Public Accountants, the financial statements of the ERS and supplementary information;
(3) Investment - includes reports of investment activity, investment policies, investment results, and various investment schedules;

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(4) Actuarial - contains the Actuary's Letter of Certification and results of the annual actuarial valuation; and
(5) Statistical - reporting significant data pertaining to the ERS.

INTERNAL CONTROLS

The management of ERS is responsible for and has implemented systems of internal accounting controls designed to provide responsible assurances for the safeguarding of assets and the reliability of financial records. We believe that the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

ACCOUNTING SYSTEM AND REPORTS

The accrual basis of accounting is used in recording financial transactions. Expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Interest earned is accrued on a monthly basis. Accounts receivable at year-end, in addition to accrued interest receivable, reflect accrued employer charges and investment proceeds due on sales that have not yet settled. Investments are recorded at fair value. Fixed assets are recorded at cost less accumulated depreciation. Under our cash management program, receipts are immediately deposited and are recorded as undistributed deposits until such time as they are allocated to member contributions, employer receivables, employer contributions, and investment income.

ADDITIONS TO PLAN NET ASSETS

For a retirement system to adequately fund the payment of future retirement benefits, it is necessary to accumulate sufficient assets on a regular and systematic basis. The ERS derives its revenues from the three principal sources summarized below:

	2000	1999	Increase/ (Decrease) Amount	Increase/ (Decrease) Percentage
Member contributions	$ 57,358,185	$ 55,702,647	$ 1,655,538	3.0%
Employer contributions	22,392,100	154,469,844	(132,077,744)	(85.5)%
Net investment income	695,151,054	904,809,348	(209,658,294)	(23.2)%
Total	$ 774,901,339	$ 1,114,981,839	$ (340,080,500)	(30.5)%

Contributions by Contributory Plan members increased due to salary increases. However, the number of Contributory Plan members continues to decrease. Most new members are required to join the Noncontributory Plan.

State and county government employers' contributions for the fiscal years ended June 30, 2000 and 1999 were based on June 30, 1997 and 1996 actuarial valuation reports, respectively. Decreases in employer contributions resulted from legislative actions and a related lawsuit settlement agreement.

Legislative actions included the use of actuarial investment earnings above 10% to reduce the State and county contributions to the ERS and an extension of the repayment period of the 1994 and 1995 Early Incentive Retirement Programs.

Net investment earnings decreased in FY 2000 because of changes in the stock and bond markets caused by interest rate increases by the Federal Reserve Board, growing credit problems from the high-yield debt market, and the bursting of the Internet speculative bubble.

DEDUCTIONS TO PLAN NET ASSETS

The primary purpose of the ERS is to provide retirement, disability and survivor benefits to qualified members and their beneficiaries. The cost of this program includes recurring pension benefit payments, the refund of contributions (plus interest) to new retirees and former members, and the cost to administer the ERS. Expenses for the past two fiscal years are shown below:

	2000	1999	Increase/ (Decrease) Amount	Increase/ (Decrease) Percentage
Benefit payments	$ 471,243,914	$ 444,047,239	$ 27,196,675	6.1%
Refund of member contributions	47,475,961	39,151,493	8,324,468	21.3%
Refund to State and counties	-	29,272	(29,272)	(100.0)%
Administrative expenses	4,168,717	3,775,942	392,775	10.4%
Total	$ 522,888,592	$ 487,003,946	$ 35,884,646	7.4%

The increase in benefit payments reflects an increase in the number of retirees and the annual post retirement benefit increase. The increase in the refund of member contributions is due to the selection of the retirement refund option by Contributory Plan members. The refund to the State and county employers during fiscal year 1999 was the result of legislation eliminating the Minimum Pension Fund. Administrative expense increases include the cost of developing a new computer and office automation system, legal costs relating to two lawsuits and postage for increased member communications. Administrative expenses are detailed in the Financial Section of the CAFR.

Total revenues exceeded expenses by over $252 million during the year, thereby increasing the ERS' net assets to slightly more than $9.9 billion on June 30, 2000. These assets are held in trust to pay for the benefits of current and future retirees and beneficiaries.

INVESTMENTS

The investment of ERS' assets is governed primarily by an investment authority known as the "prudent person rule." The prudent person rule establishes a standard for all fiduciaries, which includes anyone that has authority with respect to the ERS. The prudent person rule states that fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances.

By permitting diversification of investments within a fund, the prudent person standard may enable a fund to reduce overall risk and increase returns. The diversification of investments through an asset allocation strategy is generally regarded as the most important decision made in the investment process. Studies have indicated that approximately 85% of the variability in investment returns can be attributed to the asset allocation decision. A summary of the ERS' long-term asset allocation strategy can be found in the Investment Section of this report.

The prudent person rule also permits the fund to establish an investment policy based upon certain investment criteria and allows for the delegation of investment authority to professional investment advisors. The investment policy outlines the responsibility for the investment of the fund assets and the degree of risk that is deemed appropriate for the fund. Professional investment managers have been retained to execute the ERS' investment policy and have full discretion within statutory authority, Board policies and their respective guidelines. The investment managers retained by the Board as of June 30, 2000 are listed in the Investment Section.

The ERS' investment return was 7.6% for fiscal year 2000. The ERS' annualized rate of return over the last three and five years were 11.3% and 13.5%, respectively. ERS benefited from the continuing strength in the international equity (23.3%) markets in fiscal year 2000. The domestic equity and international fixed income sectors trailed ERS' other investment classes returning 2.3% in the domestic market and 1.0% in the international bond markets. The domestic bond market return was 4.9% and real estate holdings gained 12.9% for the year. Alternative investments returned over 44.3% for the fiscal year.

Approximately $1.4 billion in securities was redirected to realign the investment portfolio to meet the Board's new long-term asset allocation targets. Four investment management firms were terminated and five new firms were hired. Retention of an asset transition manager to help with the investment portfolio restructure saved over $3.5 million in commission and execution costs.

Market volatility has continued in the second half of 2000. However, by adhering to its long-range asset allocation strategy and by monitoring the performance of its investment managers, the Trustees are navigating the portfolio through this turbulent and volatile market.

FUNDING STATUS

The overall objective of ERS is to accumulate sufficient assets to meet current and future retirement, disability and death benefit obligations to retirees and beneficiaries. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. Continuous improvement in the funding of the ERS is sought by developing asset allocation strategies to prudently maximize investment earnings and effective cost containment. The funded ratio was 94.4% and 93.6% as of June 30, 2000 and June 30, 1999, respectively. A detailed discussion of funding method is provided in the Actuarial Section of this report.

PROFESSIONAL SERVICES

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the ERS. An opinion from the certified public accounting firm, Grant Thornton LLP, and the actuary, The Segal Company, are included in this report. Callan Associates Inc. serves as the investment advisor.

MAJOR EVENTS/INITIATIVES

Due to the foresight of ERS programmers in 1989, the ERS did not have Y2K issues with its computer systems and was able to seamlessly transition into the new calendar year.

A multi-year project to replace an outdated Wang legacy system and to improve customer service is underway. A modern client/server environment and a local area network have been installed, and staff has been trained in the new office automation tools. An internal repository containing information on retirement laws, rules, regulations, policies, and procedures was established to enable staff to efficiently research benefit or operational requirements that was previously performed manually. Once the new ERS computer and office automation systems have been installed, retirees' pensions will be finalized on a timelier basis.

The first comprehensive membership statement sent to members in January 2000 was the product of a seven-year effort to research and purify 41 years of personnel, salary, employee contribution, beneficiary and other pertinent retirement data retroactive to 1958. A significant portion of the historical data was extracted from over 5.7 million paper documents. Initial reports indicate that 94% of the historical data for over 65,000 members has been successfully processed. We are collaborating research efforts with departmental personnel and payroll offices and the State Archives office to help resolve all of the discrepancies. After all membership records have been purified, the historical data will be loaded into the new retirement benefit computation system currently being developed.

The Legislative Auditor reviewed the ERS' operations and issued an unqualified or 'clean' opinion on its FY 1999 financial statements. Recommendations on employer contributions and contract execution are serving as benchmarks for positive change.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (CAFR) to the Employees' Retirement System of the State of Hawaii for its CAFR for the fiscal year ended June 30, 1999. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for only one year. The ERS has received a Certificate of Achievement for the last ten consecutive fiscal years. We believe this report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA for consideration again this year.

ACKNOWLEDGEMENTS

This report represents the dedicated collaborative efforts of ERS staff and consultants to provide complete and reliable information as a basis for making management decisions, determining compliance with legal provisions, and as a means of determining responsible stewardship of the assets contributed by the ERS' members and their employers. The report will be provided to state legislators, State and County officials, and other interested parties.

Sincerely,

David Shimabukuro

David Shimabukuro
Administrator

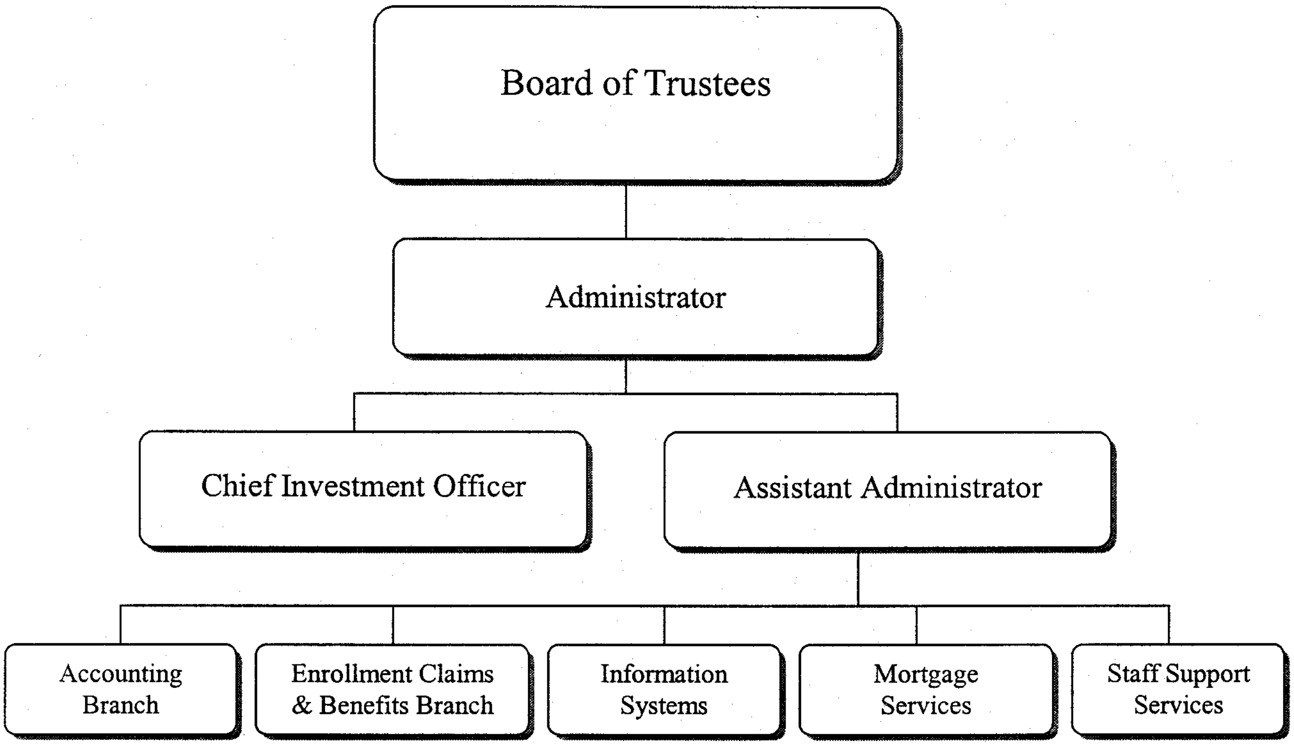
BOARD OF TRUSTEES

Name	Date Current Term Began	Date Term Ends
Elected:		
Dr. Hubert V. Everly	January 2, 1996	January 1, 2002
Ms. Jackie Ferguson-Miyamoto	January 2, 1996	January 1, 2002
Ms. Pilialoha E. Lee Loy	January 2, 1998	January 1, 2004
Mr. Darwin J. Hamamoto, Vice Chair	January 2, 2000	January 1, 2006
Appointed:		
Ms. Koren K. Dreher, Chair	April 27, 1995	January 1, 2001
Mr. Tobias (Toby) M. L. Martyn	April 25, 1997	January 1, 2003
Mr. Richard (Rick) L. Humphreys	May 10, 1999	January 1, 2005
Ex-Officio:		
Mr. Neal H. Miyahira	May 24, 1999	

The Board of Trustees is the governing body of the Employees' Retirement System of the State of Hawaii, with certain areas of administrative control vested in the State Department of Budget and Finance.

Four of the eight members on the Board are elected by the membership: two general employees, a teacher and a retiree. Three members are citizens of the State, one of whom is an officer of a bank authorized to do business in the State or a person of similar experience, who are not employees and are appointed by the Governor. The State Director of Finance is an ex-offico member by statute.

ORGANIZATIONAL STRUCTURE



Administrator	David Y. Shimabukuro
Assistant Administrator	Vacant
Chief Investment Officer	Vacant

Actuary
The Segal Company

Auditors
Grant Thornton LLP

Legal Advisor
Attorney General of Hawaii

Medical Board
Dr. Rowlin L. Lichter, Chair
Dr. Patricia L. Chinn, Member
Dr. William T. J. Cody, Member

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Employees Retirement System of the State of Hawaii

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1999

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

PLAN SUMMARY

The Employees' Retirement System (ERS) of the State of Hawaii was established by the Legislature in 1925 to provide retirement, disability and survivor benefits for State employees, teachers, professors, county employees, police officers, firefighters, judges and elected officials.

The ERS is a qualified defined benefit pension plan under Section 401(a) of the Internal Revenue Code. As such, the ERS is exempt from federal income taxation on its investment earnings. Since January 1, 1988, member contributions have been tax deferred under Section 414(h) of the Internal Revenue Code.

Members are covered by the provisions of the contributory or noncontributory retirement plan. Those in the Contributory Plan are required to make contributions to the ERS and may also be covered by Social Security. Employees in the following occupational groups are required to be members of the Contributory Plan: police officers, firefighters, judges, elected officials, legislative officers, State department heads and deputies, attorney general investigators, narcotics enforcement investigators, and public safety investigators. As of March 31, 2000, 11,643 active employees were enrolled in the Contributory Plan.

Members of the Noncontributory Plan do not make contributions to the ERS and must be covered by Social Security. The Noncontributory Plan covers most employees hired from July 1, 1984, as well as employees hired before that date who elected to join the plan. As of March 31, 2000, there were 47,548 active employees in the Noncontributory Plan, which represents over 80% of all active members. Since most new employees are required to become members of the Noncontributory Plan, these numbers will continue to increase.

A summary of the general retirement benefits for contributory and noncontributory members is on the following pages. The payment options available to members upon their retirement are also included.

SUMMARY OF RETIREMENT BENEFIT PLAN PROVISIONS

	Noncontributory Plan	Contributory Plan
Employee Contributions	No employee contributions	7.8% of salary
Normal Retirement		
Eligibility	Age 62 and 10 years credited service OR Age 55 and 30 years credited service	Age 55 and 5 years credited service
Benefit	1-1/4% of average final compensation times years of credited service (Average final compensation or AFC is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation or if ERS membership occurred prior to 1/1/71, AFC may be an average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation.)	2% of average final compensation times years of credited service (Average final compensation or AFC is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation or if ERS membership occurred prior to 1/1/71, AFC may be an average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation.)
Early Retirement		
Eligibility	Age 55 and 20 years credited service	Any age and 25 years credited service
Benefit	Normal allowance reduced 6% per year under age 62	Maximum allowance reduced 5% per year under age 55 plus 4% per year under age 50
Vesting (Inactive Members)		
Requirements	10 years credited service	5 years credited service and contributions left in the ERS
Benefit	Accrued normal allowance payable at age 65	Accrued maximum allowance payable at age 55

	Noncontributory Plan	Contributory Plan
Ordinary Disability		
Eligibility	10 years credited service	10 years credited service
Benefit	Accrued normal allowance unreduced for age	1-3/4% AFC for each full year of credited service with a minimum of 30% AFC unreduced for age
Service-Connected Disability (due to accident on the job)		
Eligibility	Any age or credited service	Any age or credited service
Benefit	Accrued normal allowance, but not less than 15% AFC unreduced for age	Totally disabled: lifetime pension of 66-2/3% AFC plus annuity unreduced for age. Occupationally disabled: same benefit (66-2/3% pension plus annuity) paid for 3 years and then pension is reduced to 33-1/3% AFC if not totally disabled unreduced for age. For accidents after July 7, 1998, member receives return of contributions plus 50% of AFC unreduced for age.
Ordinary Death		
Eligibility	Active employee at time of death with at least 10 years of credited service	Active employee at time of death with at least 1 year of service
Benefit	Surviving spouse and dependent children receive a benefit equal to a percentage of member's accrued normal allowance unreduced for age or if member was eligible for retirement at the time of death, Option B (100% Joint and Survivor) benefit for surviving spouse and a percentage of member's accrued normal allowance unreduced for age for the dependent children	Return of member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death or Option 2 (100% Joint and Survivor) benefit if member was eligible for retirement at the time of death and one beneficiary designated or Option 3 (50% Joint and Survivor) benefit if member was not eligible for retirement at the time of death, credited with 10 years of service, and one beneficiary designated

	Noncontributory Plan	Contributory Plan
Service-Connected Death (due to accident on the job)		
Eligibility	Any age or service	Any age or service
Benefit	Surviving spouse and dependent children receive pension equal to a percentage of member's accrued normal allowance, based on minimum accrued normal allowance of 30% AFC	Return of member's contributions, and accrued interest plus pension of 50% AFC to surviving spouse, dependent children or dependent parents

The plan provisions summarized above apply to teachers and most State and County employees. Special provisions applicable to other groups of employees are outlined below:

A) Police officers, firefighters, investigators of the Department of the Prosecuting Attorney and the Attorney General, narcotic enforcement investigators, and public safety investigators contribute 12.2% of their monthly salary to the ERS instead of 7.8%. These members may retire at age 55 with 10 years of credited service or at any age with 25 years of credited service and receive a retirement benefit of 2-1/2% of average final compensation (AFC) for each year of such service up to a maximum of 80% AFC, provided the last 5 years is credited service in any of these occupations.

B) Judges, elected officials, and legislative officers may retire at age 55 with at least 5 years of credited service, or at any age with at least 10 years of credited service and receive a pension of 3-1/2% of AFC for each year of such service plus an annuity from their contributions allocable to the period of such service. This benefit cannot exceed 75% of the AFC. Judges hired after June 30, 1999 require 25 years of credited service in order to retire before age 55.

C) Sewer workers in specified classifications and water safety officers may retire at any age if they are credited with 25 years of such service with the last 5 or more years in these occupations.

Post Retirement Benefit

Each retiree's original retirement allowance is increased by 2-1/2% on each July 1 beginning the calendar year after retirement. This cumulative benefit is not compounded and increases each year by another 2-1/2% of the original retirement allowance without a ceiling (i.e., 2-1/2% of the original retirement allowance the first year, 5% the second year, 7-1/2% the third year, etc.).

Taxation of Benefits

All retirement benefits are subject to Federal income taxes but are exempt from any Hawaii State income taxes. Arrangements to initiate voluntary withholding of Federal income tax can be made at any time. The ERS also provides retirees with a 1099-R tax form on or before January 31 of each year.

Additional Benefits

Retirees, their spouses and dependent children under age 19 can enjoy life insurance, medical, dental, vision, and drug coverage from the Hawaii Public Employees Health Fund or their union organization. Members hired before July 1, 1996, who retire with at least 10 years of credited service, receive health benefits at no premium cost. After June 30, 1995, member who are first hired, or rehired members who return to service with less than 10 years of credited service, qualify for health benefits on a cost sharing basis as long as the member retires with at least 10 years of service. Members with 25 or more years of service qualify for health benefits at no premium cost. Unused sick leave is excluded from credited service in determining health benefit coverage. Retirees and their spouses are also eligible to receive a reimbursement of the Medicare Part B medical insurance premium.

An update of benefits should be obtained from the Health Fund office prior to retirement since changes may have occurred.

Applying for Retirement

A member must file a service retirement application with the ERS no less than 30 days but not more than 90 days prior to the effective date of retirement. Once the application has been filed, cancellation prior to the effective date of retirement is permitted; however, the law requires mandatory retirement upon the third application. Members residing on the neighbor islands may obtain retirement application forms at the following locations:

Hawaii District Office
101 Aupuni Street, Suite 203
Hilo, Hawaii 96720

Kauai District Office
3060 Eiwa Street, Room 302
Lihue, Hawaii 96766

Maui District Office
54 S. High Street, Room 218
Wailuku, Hawaii 96793

Counseling Service

It is the policy of the ERS to render every possible service to its members; however, as thousands of inquiries are received and answered annually, in addition to the actual processing of claims and benefits, present staff and appropriations restrict this service to those members whose immediate welfare is dependent upon the prompt settlement of benefits. Members who are not planning immediate retirement but who are interested in their benefit status, should contact the ERS for the estimate worksheets that will enable them to do their own calculations. Members who are definite about retirement should contact the ERS to request formal retirement estimates.

RETIREMENT OPTIONS

CONTRIBUTORY PLAN

Maximum Allowance: The member receives a lifetime maximum allowance and at death, the difference between the value of the member's contributions at the time of retirement and the retirement allowance paid prior to death is paid to the designated beneficiary(ies) or estate.

Option One: The member receives a reduced lifetime allowance based on age and at death, the difference between the initial insurance reserve and the retirement allowance paid prior to death is paid to the designated beneficiary(ies) or estate.

Option Two (100% Joint and Survivor): The member receives a reduced lifetime allowance based on ages of both the member and the sole beneficiary and at death, the same allowance is paid to the designated beneficiary for life. Should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease at the retiree's death.

Option Three (50% Joint and Survivor): This plan is similar to Option Two. The member receives a reduced lifetime allowance which is higher than Option Two and is based on ages of both the member and the sole beneficiary; however, at death one-half of the allowance is paid to the designated beneficiary for life. Like Option Two, should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease at the retiree's death.

Option Four: This option allows the member to devise a plan that will provide a benefit according to the member's specifications. It requires certification by the Actuary and approval of the Board of Trustees. The following Option Four plans have been approved:

Combination of Options Five and Maximum Allowance. The member receives a reduced lifetime allowance and is allowed to withdraw the pre-1987 nontaxable contributions, 50% of accumulated contributions, or 75% of accumulated contributions; at death, the difference between the value of the member's contributions at the time of retirement and the retirement allowance paid prior to death is paid to the designated beneficiary(ies) or estate.

Combination of Options Five and One. The member receives a reduced lifetime allowance and is allowed to withdraw the pre-1987 nontaxable contributions, 50% of accumulated contributions, or 75% of accumulated contributions; at death, the difference between the initial insurance reserve and the retirement allowance paid prior to death is paid to the designated beneficiary(ies) or estate.

Combination of Options Five and Two. The member receives a reduced lifetime allowance based on ages of both the member and the sole beneficiary, and is allowed to withdraw the pre-1987 nontaxable contributions, 50% of accumulated contributions, or 75% of accumulated contributions; at death, the same allowance is paid to the designated beneficiary for life. As in the case of Option Two, should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease at the retiree's death.

Combination of Options Five and Three. The member receives a reduced lifetime allowance based on ages of both the member and the sole beneficiary, and is allowed to withdraw the pre-1987 nontaxable contributions, 50% of accumulated contributions, or 75% of accumulated contributions; at death, one-half of the allowance is paid to the designated beneficiary for life. As in the case of Option Three, should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease at the retiree's death.

Option Five: The member receives a reduced lifetime allowance and is allowed to withdraw all accumulated contributions; at death, the prorated amount from the last pension payment through the date of death is payable to the beneficiary(ies) or estate.

Option Four and Option Five are restricted to those members with at least ten years of credited service excluding unused sick leave credit.

Regardless of the option selected, should death occur during the first year of retirement, the designated beneficiary may elect to receive benefits as if death had occurred immediately prior to retirement in lieu of the death benefits described above.

NONCONTRIBUTORY PLAN

Normal Allowance: The member receives a lifetime pension and at death, the prorated amount from the last pension payment through the date of death is payable to the beneficiary(ies) or estate.

Option A (50% Joint and Survivor): The member receives a reduced lifetime pension and at death, one-half of the pension is paid to the sole designated beneficiary for life. Should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease upon the retiree's death.

Option B (100% Joint and Survivor): The member receives a reduced lifetime pension and at death, the same pension is paid to the sole designated beneficiary for life. Like Option A, should the designated beneficiary predecease the retiree, another beneficiary cannot be named and all payments will cease upon the retiree's death.

Option C (Ten-Year Guarantee): The member receives a reduced lifetime pension. Should death occur within ten years of retirement, the same pension will be paid to the designated beneficiary for the balance of the ten-year period. Should the designated beneficiary predecease the retiree, another beneficiary can be named.

2000 LEGISLATIVE HIGHLIGHTS

Act 215, effective June 14, 2000

- Sets a two-year deadline to file for accidental death benefits, excludes collection of interest from Contributory Plan members with deficient retirement balances, and establishes a benefit restoration plan to protect certain benefits of current and future retirees hired after December 1989.

Act 216, effective June 14, 2000

- Extends the employer payment period from 5 to 19 years to cover costs of the 1994 and 1995 Early Incentive Retirement programs.

Act 253, effective July 1, 2000

- Provides for a voluntary severance benefit or an early retirement pension to certain public employees affected by workforce reductions.

Act 265, effective June 20, 2000

- Allows certain Contributory Plan members covered under Social Security to withdraw their contributions and transfer to the Noncontributory Plan in cases of financial hardship.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

FINANCIAL SECTION

Accountants and
Management Consultants
The US Member Firm of
Grant Thornton International

Grant Thornton
GRANT THORNTON LLP

Report of Independent Certified Public Accountants

Board of Trustees
Employees' Retirement System of the State of Hawaii

We have audited the accompanying combining statements of plan net assets of the Employees' Retirement System of the State of Hawaii (System) as of June 30, 2000 and 1999, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2000 and 1999, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2000 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Suite 1000
1132 Bishop Street
Honolulu, HI 96813-2830
Tel: 808 536-1366
Fax: 808 523-8590

Board of Trustees
Employees' Retirement System of the
State of Hawaii

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the System taken as a whole. The supplementary information for defined benefit pension plans on pages 46 and 47 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. The supplementary information included on pages 50 through 54 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Grant Thornton LLP

Honolulu, Hawaii
October 27, 2000

COMBINING STATEMENTS OF PLAN NET ASSETS – ALL TRUST AND AGENCY FUNDS

June 30,

	2000		
	Pension Trust	Agency	
	Employees' Retirement System	Social Security Contribution	Total
ASSETS			
Cash and short-term investments (notes C2 and F)			
Cash	$ 12,594,691	$ 592,263	$ 13,186,954
Short-term investments	441,150,333	8,385,470	449,535,803
	453,745,024	8,977,733	462,722,757
Receivables			
Accounts receivable and others	433,698		433,698
Investment sales proceeds	122,613,522	–	122,613,522
Accrued investment income	48,053,781	–	48,053,781
Employer appropriations	5,957,000	5,065,862	11,022,862
Member contributions	716,856	–	716,856
	177,774,857	5,065,862	182,840,719
Investments, at fair value (notes C2 and F)			
Equity securities	4,950,652,904	–	4,950,652,904
Fixed income securities	2,687,962,580	–	2,687,962,580
Index funds	1,425,956,847	–	1,425,956,847
Real estate investments	443,396,197	–	443,396,197
Real estate mortgages (note I)	110,353,222	–	110,353,222
Real estate owned	56,500,000	–	56,500,000
Alternative investments	199,256,950	–	199,256,950
	9,874,078,700	–	9,874,078,700
Other			
Invested securities lending collateral (note F)	683,247,443	–	683,247,443
Equipment at cost, net of depreciation (note K)	4,112,257		4,112,257
Other assets	231,536	–	231,536
	687,591,236	–	687,591,236
Total assets	11,193,189,817	14,043,595	11,207,233,412
LIABILITIES			
Bank overdraft (note F)	4,049,367	–	4,049,367
Accounts and other payables (note I)	22,518,535	–	22,518,535
Investment commitments payable	515,146,539	–	515,146,539
Payable to Internal Revenue Service	–	5,531,642	5,531,642
Due to employers	36,455,682	8,511,953	44,967,635
Securities lending collateral (note F)	683,247,443	–	683,247,443
Total liabilities	1,261,417,566	14,043,595	1,275,461,161
Commitments and contingencies (notes F, G, H and I)	–	–	–
Net assets held in trust for pension benefits (note D) (a schedule of funding progress is presented on page 46)	$ 9,931,772,251	$ –	$ 9,931,772,251

The accompanying notes are an integral part of these statements.

1999		
Pension Trust	Agency	
Employees' Retirement System	Social Security Contribution	Total
$ 16,421,975	$ 654,964	$ 17,076,939
434,304,359	8,885,993	443,190,352
450,726,334	9,540,957	460,267,291
512,010		512,010
421,629,926	–	421,629,926
50,217,214	–	50,217,214
–	7,968,689	7,968,689
751,065	–	751,065
473,110,215	7,968,689	481,078,904
4,973,478,783	–	4,973,478,783
2,893,929,883	–	2,893,929,883
974,990,275	–	974,990,275
446,239,511	–	446,239,511
122,758,800	–	122,758,800
58,285,000	–	58,285,000
43,431,779	–	43,431,779
9,513,114,031	–	9,513,114,031
601,882,182	–	601,882,182
172,143	–	172,143
–	–	–
602,054,325	–	602,054,325
11,039,004,905	17,509,646	11,056,514,551
3,447,133	–	3,447,133
15,928,930	–	15,928,930
720,939,935	–	720,939,935
–	8,615,297	8,615,297
17,047,221	8,894,349	25,941,570
601,882,182	–	601,882,182
1,359,245,401	17,509,646	1,376,755,047
–	–	–
$ 9,679,759,504	$ –	$ 9,679,759,504

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Year ended June 30,

	2000	1999
Additions		
Appropriations and contributions (note E)		
Employers	$ 22,392,100	$ 154,469,844
Members	57,358,185	55,702,647
Total contributions	79,750,285	210,172,491
Investment income		
From investing activities		
Net appreciation in fair value of investments	388,224,367	603,921,849
Interest on fixed income securities	148,588,742	172,651,897
Dividends on equity securities	99,138,338	79,652,696
Interest and fees on real estate mortgages	11,074,754	12,891,806
Interest on short-term investments	18,307,677	18,461,545
Income on real estate investments	33,509,811	29,024,659
Rental income	9,492,122	9,663,298
Alternative investment income	14,195,267	12,706
Miscellaneous	1,566,561	1,435,340
	724,097,639	927,715,796
Less investment expenses	31,236,355	26,006,325
Net investment income	692,861,284	901,709,471
From securities lending activities		
Securities lending income	27,166,275	31,796,077
Securities lending expenses		
Borrower rebates	24,309,482	27,921,660
Management fees	567,023	774,540
Less securities lending activities expense	24,876,505	28,696,200
Net income from securities lending activities	2,289,770	3,099,877
Total net investment income	695,151,054	904,809,348
Total additions	774,901,339	1,114,981,839
Deductions		
Benefit payments (note A3)	471,243,914	444,047,239
Refunds of member contributions	47,475,961	39,151,493
Refunds paid to State and counties	–	29,272
Administrative expenses	4,168,717	3,775,942
Total deductions	522,888,592	487,003,946
NET INCREASE	252,012,747	627,977,893
Net assets held in trust for pension benefits (note D)		
Beginning of year	9,679,759,504	9,051,781,611
End of year	$9,931,772,251	$9,679,759,504

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2000 and 1999

NOTE A – DESCRIPTION OF THE SYSTEM

1. General

The Employees' Retirement System of the State of Hawaii (System) began operations on January 1, 1926, having been established by the Territorial Legislature in the preceding year. The System is a cost-sharing, multiple-employer public employee retirement system established to administer a pension benefits program for all State and county employees, including teachers, police officers, firefighters, correction officers, judges and elected officials.

Employer, pensioner and employee membership data as of March 31,:

	2000	1999
Employers:		
State	1	1
Counties	4	4
Total employers	5	5
Pensioners, beneficiaries and terminated vested members:		
Pensioners and beneficiaries currently receiving benefits and terminated vested members entitled to benefits but not yet receiving benefits:		
Police officers, firefighters and corrections officers	2,332	2,208
All other pensioners and beneficiaries	26,383	25,742
Terminated vested members	3,016	2,777
Total pensioners, beneficiaries and terminated vested members	31,731	30,727
Current employees:		
Vested:		
Police officers, firefighters and corrections officers	3,640	3,649
All other employees	29,844	28,239
Nonvested:		
Police officers, firefighters and corrections officers	991	882
All other employees	24,716	25,617
Total current employees	59,191	58,387

NOTE A – DESCRIPTION OF THE SYSTEM (continued)

2. The Financial Reporting Entity

As required by generally accepted accounting principles, these financial statements present the System (the primary government) as a separate reporting entity from the State of Hawaii (State). The System is not part of the State's financial reporting entity because it is a separate legal entity that is fiscally independent of the State. The System was established by Chapter 88 of the Hawaii Revised Statutes and is governed by a Board of Trustees (Board) as discussed below. As the primary government, the System has included the Social Security Contribution Fund in its financial statements since the Social Security Contribution Fund is not a legally separate entity.

The Board administers the System on behalf of public employees of both the State and county governments. Except for limited administrative functions, the State does not have the power to supervise or control the Board in the exercise of its functions, duties and powers. The Board consists of eight members. The State Director of Finance is a statutory member of the Board. Four members of the Board are elected by members of the System and the other three members of the Board are appointed by the Governor. Decisions are made with the concurring vote of five members of the Board. The Board appoints the Administrator and Chief Investment Officer and engages actuarial and other services required to transact the business of the System.

3. Benefits

Members of the System belong to either the contributory or noncontributory plan. All assets of the System (in the Pension Trust) may be used to pay benefits to any member of the System. Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984, who are covered by Social Security, are generally required to join the noncontributory plan. Most members of the contributory plan are required to contribute 7.8% of their salary. Both plans provide a monthly retirement allowance based on the member's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service excluding the payment of salary in lieu of vacation. Vesting requirements for the contributory and noncontributory plans are five years and ten years, respectively.

NOTE A – DESCRIPTION OF THE SYSTEM (continued)

3. Benefits (continued)

Ordinary disability retirement benefits require a minimum of ten years of service, whereas service connected disability resulting from a job related accident does not have any service requirement. Under both plans, there is no age requirement.

Ordinary death benefits under the contributory and noncontributory plans require at least one year and ten years of service, respectively. Under both plans, there is no service requirement for service connected death benefits.

Retirement benefits for certain groups of contributory members, such as police officers, firefighters, some investigators, sewer workers, judges and elected officials, vary from general employees. All contributions, benefits and eligibility requirements are governed by Chapter 88 of the Hawaii Revised Statutes.

Every retiree's original retirement allowance is increased by 2-1/2% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2-1/2% of the original retirement allowance without a ceiling (2-1/2% of the original retirement allowance the first year, 5% the second year, 7-1/2% the third year, etc.).

NOTE B – SOCIAL SECURITY CONTRIBUTION FUND

The Social Security Contribution Fund (Contribution Fund) was established under Section 88-224 of the Hawaii Revised Statutes for the following purposes:

1. To receive all federal social security contributions withheld from State and county employees, employers' matching contributions, and interest and penalties on unpaid amounts;

2. To receive any appropriations to the Contribution Fund;

3. To pay amounts required to be paid to the Internal Revenue Service (IRS); and

4. To invest and collect income on resources held by the Contribution Fund.

Effective January 1, 1987, all governmental agencies, with the exception of the State (employer's contribution only), remit social security contributions directly to the IRS. Social security contributions withheld from employees are remitted directly to the IRS by the employers.

NOTE C – SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Basis of Accounting

Fiduciary funds are used to account for assets held by the System in a trustee capacity or as an agent for individuals, private organizations, other governments, and or other funds. The fiduciary fund types used by the System are a pension trust fund and an agency fund. Each of the fiduciary funds are considered a separate fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, equity, revenues and expenditures, or expenses, as appropriate. The accounting and reporting treatment applied to a fund is determined by its measurement focus. The Pension Trust Fund is accounted for on a flow of economic resources measurement focus. As an agency fund, the Contribution Fund is custodial in nature and does not measure results of operations.

The financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

2. Investments

Pursuant to Section 88-119 of the Hawaii Revised Statutes, the System may invest in real estate loans and mortgages; preferred and common stocks; government obligations; corporate obligations; certain other debt obligations (such as obligations secured by collateral of certain other authorized securities listed here, obligations issued or guaranteed by certain development banks, insurance company obligations); real property; alternative investments; and other securities and futures contracts. The investment decision is further dictated by internal investment policies and asset allocation established by the Board of Trustees. Assets in the Pension Trust may be invested in any of these assets, while investments in the Contribution Fund are limited to investment grade, short-term marketable securities.

NOTE C – SUMMARY OF ACCOUNTING POLICIES (continued)

2. Investments (continued)

Investments are reported at fair value. Where appropriate, the fair value includes disposition costs. Short-term investments are reported at cost, which approximates fair value. Securities (categorized as fixed-income, equity, index funds, and alternative investments) traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments and real estate owned are based on independent appraisals and estimated values. Investments that do not have an established market are reported at estimated fair value.

3. Interest and Earnings Allocation

Pursuant to Section 88-21 and 88-107 of the Hawaii Revised Statutes, the Board shall annually allocate interest and other earnings of the System to the funds of the System, as follows:

a. Annuity Savings Fund – Fixed at 4-1/2% regular interest rate.

b. Expense Fund – To be credited all money to pay the administrative expenses of the System.

c. Pension Accumulation Fund – To be credited with any remaining investment earnings.

4. Risk Management

The System reports liabilities, as discussed in note G, related to certain types of losses (including torts, theft of, damage to, or destruction of assets, errors or omissions, natural disasters and injuries to employees) when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

5. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial

NOTE C – SUMMARY OF ACCOUNTING POLICIES (continued)

5. Use of Estimates (continued)

statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

6. Reclassifications

Certain reclassifications have been made to the 1999 financial statements to conform to the 2000 presentation.

NOTE D – DESCRIPTION OF FUNDS

Section 88-109 of the Hawaii Revised Statutes requires the establishment and maintenance of specific funds. The funds in the Pension Trust and their purposes are described hereunder:

1. Pension Accumulation Fund

To accumulate contributions made by the State and counties, transfers of retired members' contributions plus related interest income from the Annuity Savings Fund and income from investments. All pension benefits, including the pensioners' bonus and the minimum pension benefit (effective July 7, 1998) are paid through this Fund, as discussed in note D4 below.

2. Annuity Savings Fund

To accumulate members' contributions and related interest income. Upon a member's retirement, the accumulated contributions and related interest income are transferred to the Pension Accumulation Fund or refunded to the member upon termination.

3. Expense Fund

To pay all the expenses necessary in connection with the administration and operation of the System. The Board estimates the amount of money necessary to be paid into the expense fund for the ensuing biennium to provide for the expense of operation of the System, and pays that amount into the expense account from the investment earnings of the System, subject to review by the legislature and approval by the Governor.

NOTE D – DESCRIPTION OF FUNDS (continued)

4. Minimum Pension Fund

Prior to July 7, 1998, the Minimum Pension Fund received appropriations made by the State and counties for the purpose of paying minimum pensions and to pay each retirant a minimum pension under Section 88-89 of the Hawaii Revised Statutes. Act 151, S.L.H. 1999 eliminated the Minimum Pension Fund and authorized the payment of minimum pensions from the Pension Accumulation Fund as discussed in note D1 above. The fund balance as of July 1, 1998 was refunded to State and counties employers in the fiscal year ended June 30, 1999.

Net assets held in trust for pension benefits as of June 30, are as follows:

	2000	1999
Pension Accumulation Fund	$8,984,981,324	$8,776,158,199
Annuity Savings Fund	937,954,350	902,196,221
Expense Fund	8,836,577	1,405,084
Total net assets held in trust for pension benefits	$9,931,772,251	$9,679,759,504

NOTE E – CONTRIBUTIONS

The System's funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Under this method, the total employer contribution is comprised of the "normal cost" plus the level annual payments required to amortize the unfunded actuarial accrued liability over the remaining period of 18 years from July 1, 1998. The employer normal cost is the level percentage of payroll contribution required to pay all benefits. Actuarial gains and losses resulting from differences between actual and assumed experience are reflected in the employer unfunded accrued liability.

Most members of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the department of prosecuting attorney and the attorney general, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary.

NOTE E – CONTRIBUTIONS (continued)

Employer and member contributions are governed by Chapter 88 of the Hawaii Revised Statutes. The annual required employer contributions for the years ended June 30, 2000 and 1999 were determined as part of actuarial valuations dated June 30, 1997 and 1996, respectively.

As the result of a settlement agreement reached between the System and City and County of Honolulu and the County of Kauai, the parties agreed to certain mutual covenants which decreased the employers' annual contribution for the year ended June 30, 2000.

NOTE F – CASH DEPOSITS AND INVESTMENTS

The System's policy is to invest cash in excess of operating requirements in income-producing investments. The carrying amount of the System's total deposits (including those classified as short-term investments) as of June 30, 2000 and 1999, net of a bank overdraft of $4,049,367 and $3,447,133, was $16,231,490 and $16,129,806 (which includes cash and time deposits of $7,293,904 and $2,700,000), respectively. Total bank balances of these deposits amounted to $25,585,542 and $20,418,290, respectively. Of the bank balances, $2,674,590 and $2,565,845, respectively, was covered by the Federal Deposit Insurance Corporation or by collateral held by the System or by its agent in the System's name, and $22,910,952 and $17,852,445, respectively, was uninsured and uncollateralized. The uninsured and uncollateralized balances are primarily U.S. dollar equivalents of foreign cash held for the purpose of settling transactions.

The System's investments are categorized to give an indication of the level of risk assumed at fiscal year end. The three categories of credit risk are:

- Category 1 includes investments that are insured or registered, or for which the securities are held by the System or its agent in the System's name.

- Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name.

- Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the System's name.

The System's investments that can be categorized within these guidelines meet the criteria of category 1. A security, for purposes of classification in the above categories, is a transferable

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

financial instrument that evidences ownership or creditor status. "Securities" do not include investments made with another party, real estate or direct investments in mortgages. Investments in mutual funds, limited partnerships, and commingled trust funds also are not considered securities for purposes of credit risk classification. Such investments are shown in the schedule on the below as "not subject to classification."

The following table summarizes the risk categories and fair values of investments held by the System as of June 30,:

	2000 (in thousands)		1999 (in thousands)	
	Category 1	Fair value	Category 1	Fair value
Short-term securities:				
Repurchase agreements	$ –	$ –	$ 1,125	$ 1,125
U.S. Treasury issues	–	–	1,964	1,964
Commercial paper	3,791	3,791	–	–
	3,791	3,791	3,089	3,089
Equity securities:				
Common stock				
Not on securities loan	4,180,583	4,180,583	4,372,709	4,372,709
On securities loan for noncash collateral	33,282	33,282	15,452	15,452
Depository receipts, preferred stock and other				
Not on securities loan	114,961	114,961	135,643	135,643
On securities loan for noncash collateral	2,917	2,917	4,687	4,687
	4,331,743	4,331,743	4,528,491	4,528,491
Fixed income securities:				
Mortgage-backed securities				
Not on securities loan	970,850	970,850	1,071,075	1,071,075
On securities loan for noncash collateral	45	45	27,655	27,655
U.S. Government bonds				
Not on securities loan	93,920	93,920	148,386	148,386
On securities loan for noncash collateral	83,575	83,575	63,000	63,000
Foreign bonds				
Not on securities loan	567,936	567,936	449,883	449,883
U.S. corporate bonds				
Not on securities loan	520,482	520,482	627,908	627,908
On securities loan for noncash collateral	2,705	2,705	15,477	15,477
Asset backed securities	169,805	169,805	202,997	202,997
	2,409,318	2,409,318	2,606,381	2,606,381
Total categorized investments	$6,744,852	$ 6,744,852	$7,137,961	$ 7,137,961

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

	2000 (in thousands)		1999 (in thousands)	
	Category 1	Fair value	Category 1	Fair value
Total categorized investments brought forward		$ 6,744,852		$ 7,137,961
Investments not subject to categorization:				
Investments held by broker dealers under securities loans for cash collateral:				
Equity securities:				
Common stock		366,150		228,474
Depository receipts, preferred stock and other		34,506		69,715
Fixed income securities:				
Mortgage-backed securities		17,201		8,484
U.S. Government bonds		212,344		223,543
Foreign bonds		19,358		31,881
U.S. corporate bonds		12,243		18,704
Asset backed securities		659		11,587
Mutual funds, commingled funds, and others				
Short-term securities		438,651		437,600
Equity securities		218,254		149,125
Fixed income securities		31,166		43,487
Index funds		1,425,957		974,990
Real estate investments		443,396		446,240
Real estate mortgages		110,353		122,759
Real estate owned		56,500		58,285
Alternative investments		199,257		43,432
		3,585,995		2,868,306
Total investments		$10,330,847		$10,006,267

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

Reconciliation to investments on combining statements of plan net assets:

	2000 (in thousands)	1999 (in thousands)
Total investments	$10,330,847	$10,006,267
Less short-term securities		
Repurchase agreements	–	(1,125)
U.S. Treasury issues	–	(1,964)
Commercial paper	(3,791)	–
Pooled funds and other	(438,651)	(437,600)
Less investments on securities loans that were sold and pending settlement; included in investment sales proceeds receivable		
U.S. Government bonds	(12,926)	(50,138)
Common stock	(1,400)	(2,326)
Investments on combining statements of plan net assets	$ 9,874,079	$ 9,513,114

Short-term securities and part of the pooled funds and other are reported as short-term investments in the accompanying combining statements of plan net assets.

The following manager held investments at fair value in excess of 5% of the System's net asset held in trust for pension benefits as of June 30,:

	2000	1999
Mellon Enhanced Equity Index Fund	$1,051,606,206	$670,961,902

1. Derivative Investments

The System enters into various derivative investment contracts to hedge, reduce costs and enhance liquidity. As with any investment, derivative contracts are subject to various types of credit and market risks. Notably, these would include the possible inability of a counterparty to meet the terms of the contract, changes in the market value of the underlying collateral, or

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

1. Derivative Investments (continued)

changes in the interest rate environment. Certain of the System's investments in derivative securities and contracts and their associated credit and market risks are described as follows:

Forward Currency Exchange Contracts

The System enters into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates and to facilitate the settlement of foreign security transactions. A forward contract is an agreement to buy or sell a specific amount of currency at a specific delivery or maturity date for an agreed-upon price. Risks associated with such contracts include movements in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are recorded as net appreciation in fair value of investments in the statement of changes in plan net assets. The fair value of forward currency exchange contracts outstanding at June 30, is as follows:

	2000	1999
Forward currency purchases	$1,048,893,579	$740,434,567
Forward currency sales	1,057,285,367	738,840,851
Unrealized (losses) gains	$ (8,391,788)	$ 1,593,716

Mortgage-Backed Securities

As of June 30, 2000 and 1999, the fair value of mortgage-backed securities issued or backed by the U.S. government or its agencies, or corporate issues rated AAA by at least one of the major rating agencies was $988,753,888 and $1,107,213,031, respectively. A mortgage-backed security depends on the underlying pool of mortgage loans to provide the cash flow to make principal and interest payments on the security. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby pre-paying the mortgages underlying these securities, the cash flows from interest payments are reduced and the value of these securities declines. Conversely, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

1. Derivative Investments (continued)

Mortgage-Backed Securities (continued)

investment would be higher than anticipated. A collateralized mortgage obligation (CMO) is a mortgage-backed security that is comprised of classes of bonds created by prioritizing the cash flows of the underlying mortgage pool. As of June 30, 2000 and 1999, the fair value of CMO securities was $204,632,433 and $121,515,622, respectively.

2. Securities Lending

The System participated in a securities lending program administered by its bank custodian. Under this program, which is permissible under Chapter 88 of the Hawaii Revised Statutes, certain equity and fixed income securities of the System were lent to participating broker-dealers and banks (borrowers). In return, the System received cash, securities issued or guaranteed by the U.S. government and/or letters of credit as collateral. The System did not have the ability to pledge or sell collateral securities absent of borrower default. Borrowers were required to deliver collateral for each loan equal to: (a) in the case of loaned securities denominated in U.S. dollars or whose primary trading market was located in the U.S., 102% of the market value of the loaned securities; and (b) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market was not located in the U.S., 105% of the market value of the loaned securities. The collateral was marked to market daily. If the market value of the collateral fell below the minimum collateral requirements, additional collateral was provided. Securities on loan for cash collateral are presented as unclassified in the preceding schedule of custodial credit risk; securities on loan for securities collateral are classified according to the underlying security. At June 30, 2000 and 1999, the System had no credit risk exposure to borrowers because the market value of collateral held by the System exceeded the market value of securities loaned. As of June 30, 2000 and 1999, the market value of securities loaned amounted to approximately $784,984,395 and $718,659,560, respectively, and the associated collateral amounted to approximately $809,794,415 and $744,041,341, respectively. In addition, the bank custodians indemnified the System by agreeing to purchase replacement securities or return cash collateral in the event the borrower failed to return the loaned security or pay distributions.

The System did not impose any restrictions on the amount of loans the bank custodian made on behalf of the System. Also, the System and the borrowers maintained the right to terminate securities lending transactions on demand. As such, the maturities of the investments made

NOTE F – CASH DEPOSITS AND INVESTMENTS (continued)

2. Securities Lending (continued)

with cash collateral generally did not match the maturities of the securities loans. The extent of such mismatch as of June 30, 2000 and 1999 was 42 and 40 days, respectively.

3. Foreign Investments

The fair value of the System's investments in foreign equity and fixed income securities as of June 30, is as follows:

	2000	1999
Foreign equity securities	$1,304,952,294	$1,296,951,069
Foreign fixed income securities	587,294,504	484,475,506
	$1,892,246,798	$1,781,426,575

NOTE G – RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. As required by state law, the System participates in coverage with the State of Hawaii. The State retains various risks and insures certain excess layers with commercial insurance policies. The excess layers are consistent with the prior fiscal year. Settled claims for the State have not exceeded the coverage provided by commercial insurance policies in any of the three fiscal years prior to June 30, 2000. Losses not covered by insurance are generally paid from legislative appropriations.

1. Torts

The System is involved in various litigation and claims, including claims regarding retirement benefits, the outcome of which cannot be presently determined, and as discussed in note I. In the opinion of management, the outcome of these actions will not have a material adverse effect on the System's financial position.

NOTE G – RISK MANAGEMENT (continued)

2. Property and Liability Insurance

   The System also purchased property and liability insurance for all real estate owned from outside carriers. During the past three fiscal years, no loss settlements exceeded insurance coverages.

3. Workers' Compensation Policy

   The State has a self-insured workers' compensation policy. Workers' compensation claims are paid from legislative appropriations.

NOTE H – COMMITMENTS

In the normal course of business, the System enters into commitments with associated risks. The System adheres to the same credit policies, financial and administrative controls and risk limiting and monitoring procedures for these commitments as for all investments.

The System has future financial commitments of up to an additional $428,962,042 in real estate, alternative investments and domestic equity investments as of June 30, 2000.

NOTE I – CONTINGENCIES

In 1998, the State of Hawaii Supreme Court ruled against the System in a class action suit filed by the retired public school principals, vice principals and teachers whose retirement benefits were calculated using the "High 3" method of computing average final compensation. Under the terms of the court order, the System was required to recalculate monthly retirement benefits for all members of the class who are (a) school principals and vice principals collecting a retirement benefit in 1984, (b) teachers collecting a retirement benefit in 1988, and (c) members of these groups who have since retired. Management estimated the total liability for the retroactive benefits to be approximately $4,438,000 covering the 4,814 class members identified. The System made the initial retroactive benefit payments to 4,110 members of this class as of June 30, 1999, and substantially completed payments to identified class members during the fiscal year ended June 30, 2000. As of June 30, 1999, the unpaid liability was $853,000. The teachers filed an appeal and were awarded additional moneys as "interest" on the underpayments amounting to approximately $1,000,000 in October 2000 by the State of Hawaii First Circuit Court. The System has filed an appeal of the First Circuit Court's decision to the Hawaii Supreme Court.

NOTE I – CONTINGENCIES (continued)

A borrower is in substantial and repeated default on a commercial real estate loan with the System amounting to $76,406,016, including principal and accrued interest receivable, as of June 30, 2000. The System filed a complaint to foreclose on a mortgage that secures this loan on August 24, 2000. The estimated fair value of this property amounts to $60,000,000. The System and the borrower, however, agreed to a Standstill Agreement on September 26, 2000, based upon certain conditions deferring prosecution of the complaint while the parties attempt to reach consensual resolution. The borrower made a payment of $3,829,470 in October 2000 which was a condition in the Standstill Agreement. Management is unable to comment on the likelihood of any particular outcome at this time.

NOTE J – DEFERRED COMPENSATION PLAN

The System does not sponsor a deferred compensation program. System employees are eligible to participate in the deferred compensation plan sponsored by the State of Hawaii. The State sponsored plan was created in accordance with Internal Revenue Code Section 457. The plan, available to all System employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or an unforeseeable emergency. All compensation deferred under the plan is held by a custodian for the exclusive benefit of participants and beneficiaries.

NOTE K – FIXED ASSETS

Fixed assets used in the operations are reported in statement of plan net assets at historical cost, net of accumulated depreciation. These assets are depreciated on a straight-line basis over an average useful life of three years, with no salvage value. Accumulated depreciation on equipment as of June 30, 2000 and 1999 was $207,487 and $2,014, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2000, 1999, 1998 and 1997

SCHEDULES OF FUNDING PROGRESS
(in thousands)

Actuarial valuation date	Actuarial value of assets (1)	Actuarial accrued liability (AAL) (2)*	Unfunded AAL (3)*= (2)-(1)	Funded Ratio (4)=(1)/(2)	Covered payroll (5)	UAAL as a percentage of covered payroll (6)=(3)/(5)
June 30, 2000	$9,204,707	$9,748,023	$543,316	94.4%	$2,275,298	23.9%
June 30, 1999	$8,590,807	$9,181,730	$590,923	93.6%	$2,186,499	27.0%
June 30, 1998	$7,906,216	$8,492,013	$585,797	93.1%	$2,135,945	27.4%
June 30, 1997	$7,268,504	$8,001,855	$733,351	90.8%	$2,019,268	36.3%

*Note: Items (2) and (3) include the unfunded liabilities related to the Early Incentive Retirement Program retirees who retired on December 31, 1994 and June 30, 1995 amounting to $77,736,700, $80,110,400, $82,308,100, and $84,343,400 as of June 30, 2000, 1999, 1998, and 1997, respectively.

In June 2000, June 1999 and July 1998, the Legislature of the State of Hawaii enacted Acts 216, 100 and 151, respectively, which amends Sections 88-107 and 88-122 of the Hawaii Revised Statutes related to assumptions used in determining the actuarial valuation. The amounts as of June 30, 1999, 1998 and 1997 have been revised to be in compliance with these Acts and a related lawsuit settlement agreement (note I).

SCHEDULES OF EMPLOYER CONTRIBUTION
(in thousands)

Year ended June 30,	Annual required contribution	Actual contribution	Percentage contributed
2000	$172,255	$ 22,392	13.0%
1999	$185,387	$154,470	83.3%
1998	$307,680	$310,627	101.0%
1997	$323,188	$322,121	99.7%

In accordance with the parameters of Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, years previous to 1997 are not shown because such information is not available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2000

The information presented in the required supplementary schedules was determined as part of the annual actuarial valuation. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2000*
Actuarial cost method	Entry age normal*
Amortization method	Level dollar
Remaining amortization period	The unfunded actuarial accrued liability is amortized over a 16-year closed period.*
Asset valuation method	An expected actuarial value of assets using the assumed 8.0% rate of return is calculated. This value is adjusted by recognizing one-fourth of the difference between the expected actuarial value of assets and the actual market value of assets.*
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	Based on the actual salary growth experience during the most recent three years for general employees, teachers, and for police, fire and corrections, which ranges from 2.5% to 5.9%.
Assumed inflation rate	4.0%
Post retirement benefit increases	2-1/2% (not compounded)

* The annual required contribution for the year ended June 30, 2000 was determined as part of an actuarial valuation dated June 30, 1997 that is consistent with the current actuarial valuation.

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SUPPLEMENTARY INFORMATION

CHANGES IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Year ended June 30,

	2000			
	Pension Accumulation Fund	Annuity Savings Fund	Expense Fund	Total (memorandum only)
Additions				
Appropriations and contributions:				
Employers	$ 22,392,100	$ –	$ –	$ 22,392,100
Members	–	57,358,185	–	57,358,185
Net investment income	695,151,054	–	–	695,151,054
Total additions	717,543,154	57,358,185	–	774,901,339
Deductions				
Benefit payments	471,243,914	–	–	471,243,914
Refunds of member contributions	43,157,307	4,318,654	–	47,475,961
Refunds paid to State and counties	–	–	–	–
Administrative expenses	–	–	4,168,717	4,168,717
Total deductions	514,401,221	4,318,654	4,168,717	522,888,592
Other changes in net assets held in trust for pension benefits:				
Transfer due to retirement of members	55,661,695	(55,661,695)	–	–
Transfer of interest allocation	(38,380,293)	38,380,293	–	–
Transfer to pay administrative expenses	(11,600,210)	–	11,600,210	–
Return of unrequired funds due to savings in administrative expenses	–	–	–	–
	5,681,192	(17,281,402)	11,600,210	–
NET INCREASE (DECREASE)	208,823,125	35,758,129	7,431,493	252,012,747
Net assets held in trust for pension benefits:				
Beginning of year	8,776,158,199	902,196,221	1,405,084	9,679,759,504
End of year	$8,984,981,324	$937,954,350	$8,836,577	$9,931,772,251

1999				
Pension Accumulation Fund	Annuity Savings Fund	Expense Fund	Minimum Pension Fund	Total (memorandum only)
$ 154,469,700	$ –	$ –	$ 144	$ 154,469,844
–	55,702,647	–	–	55,702,647
904,809,348	–	–	–	904,809,348
1,059,279,048	55,702,647	–	144	1,114,981,839
444,047,239	–	–	–	444,047,239
34,696,835	4,454,658	–	–	39,151,493
–	–	–	29,272	29,272
–	–	3,775,942	–	3,775,942
478,744,074	4,454,658	3,775,942	29,272	487,003,946
70,434,929	(70,434,929)	–	–	–
(37,925,162)	37,925,162	–	–	–
(6,345,904)	–	6,345,904	–	–
1,249,025	–	(1,249,025)	–	–
27,412,888	(32,509,767)	5,096,879	–	–
607,947,862	18,738,222	1,320,937	(29,128)	627,977,893
8,168,210,337	883,457,999	84,147	29,128	9,051,781,611
$8,776,158,199	$902,196,221	$1,405,084	$ –	$9,679,759,504

SOCIAL SECURITY CONTRIBUTION FUND
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES

Year ended June 30,

	2000				1999			
ASSETS	Beginning balance	Additions	Deductions	Ending balance	Beginning balance	Additions	Deductions	Ending balance
Cash	$ 654,964	$151,187,975	$151,250,676	$ 592,263	$ 72,506	$ 76,215,314	$ 75,632,856	$ 654,964
Short-term investments	8,885,993	6,934,606	7,435,129	8,385,470	6,676,696	6,230,563	4,021,266	8,885,993
Employer appropriations receivable	7,968,689	133,432,918	136,335,745	5,065,862	963,676	134,502,857	127,497,844	7,968,689
Total assets	$17,509,646	$291,555,499	$295,021,550	$14,043,595	$7,712,878	$216,948,734	$207,151,966	$17,509,646
LIABILITIES								
Bank overdraft	$ –	$ –	$ –	$ –	$ 525,772	$124,941,533	$125,467,305	$ –
Payable to Internal Revenue Service	8,615,297	134,162,292	137,245,947	5,531,642	4,643,792	128,385,582	124,414,077	8,615,297
Due to employers	8,894,349	133,780,431	134,162,827	8,511,953	2,543,314	134,737,668	128,386,633	8,894,349
Total liabilities	$17,509,646	$267,942,723	$271,408,774	$14,043,595	$7,712,878	$388,064,783	$378,268,015	$17,509,646

ADMINISTRATIVE EXPENSES

Year ended June 30,

	2000	1999
Personnel services		
Salaries and wages	$2,096,540	$2,168,035
Fringe benefits	499,546	558,025
Total personnel services	2,596,086	2,726,060
Professional services		
Actuarial	61,150	77,000
Auditing and tax consulting	111,004	115,625
Medical	118,593	114,504
Disability hearing expenses	5,285	4,299
Legal services	233,144	140,341
Total professional services	529,176	451,769
Communication		
Printing and binding	22,130	11,779
Telephone	15,684	13,740
Postage	161,088	86,701
Travel	13,439	16,057
Total communication	212,341	128,277
Rentals		
Rental of equipment	7,657	8,821
Rental of premises	7,182	7,141
Total rentals	14,839	15,962
Other		
Repairs and maintenance	92,808	66,378
Stationery and office supplies	58,145	40,848
Equipment	4,954	2,351
Computer and office automation systems	332,015	280,548
Microfilm	9,057	11,473
Armored car service	5,777	4,434
Training	3,335	3,612
Trustee election	12,308	-
Miscellaneous	92,403	42,216
Total other	610,802	451,860
Depreciation	205,473	2,014
	$4,168,717	$3,775,942

INVESTMENT EXPENSES

Year ended June 30,

	2000	1999
Investment expenses		
Investment manager/advisor fees	$26,479,004	$21,546,951
Bank custodian fees	210,991	126,279
Operating expenses – rental	4,463,701	4,302,891
Other investment expenses	82,659	30,204
Total investment expenses	31,236,355	26,006,325
Securities lending expenses		
Borrower rebates	24,309,482	27,921,660
Management fees	567,023	774,540
Total securities lending expenses	24,876,505	28,696,200
	$56,112,860	$54,702,525

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

INVESTMENT SECTION

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CALLAN ASSOCIATES INC

December 27, 2000

CAI

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

Board of Trustees
State of Hawaii Employees' Retirement System
City Financial Tower
201 Merchant Street, Suite 1400
Honolulu, HI 96813-2980

Dear Trustees:

Enclosed is our report on investment activity for the Hawaii Employees' Retirement System for periods ended June 30, 2000, as requested by the Government Financial Officers' Association (GFOA).

Hawaii ERS-Total Fund Performance

The total assets of the Retirement System were just under $10 billion as of June 30, 2000, an increase of roughly $200 million for the fiscal year. The investment return for the total fund expressed as a time-weighted total rate of return was 7.55% for the 2000 fiscal year, compared to the benchmark's return of 8.85%. For the three-year period ending June 30, 2000 the total fund gained 11.28% per annum versus the benchmark's 12.73%, and for the trailing five-year period the total fund posted a return of 13.51% per annum versus the benchmark's 14.32%. The difference in actual returns vs. the benchmark was largely attributable to domestic equity performance.

Asset Class Performance

Domestic equity returned 2.26% for the fiscal year, underperforming the S&P 500 Index's 7.24% and Callan's Domestic Equity Database median of 11.63%. Domestic fixed-income gained 4.94% for the year, beating the Lehman Brothers Aggregate and Callan Fixed-Income Database median return of 4.57%. International equity performed very well once again in the 2000 fiscal year, gaining 23.31% versus the MSCI EAFE Index return of 17.15%, whereas international fixed-income underperformed its benchmark, gaining .96% versus the Salomon Non-US Government Bond Index gain of 2.42%. Real Estate gained 12.92% for the year ending June 30, 2000 versus the Callan Total Real Estate Funds' gain of 9.14%. Alternative investments were a positive contributor to performance, returning over 40% for the fiscal year.

71 STEVENSON STREET, SUITE 1300, SAN FRANCISCO, CALIFORNIA 94105 TELEPHONE 415.974.5060 FACSIMILE 415.495.6702

State of Hawaii Employees' Retirement System
December 27, 2000
Page 2

Market Conditions

For the first nine months of the fiscal year, the U.S. economy continued to steamroll along with historically low levels of unemployment and inflation. In March 2000, the economy began a record tenth year of expansion. Finally in the second quarter of 2000, signs of a slowing economy became evident. For much of the fiscal year, the Federal Reserve continued to raise short-term interest rates in hopes of warding off inflation. As the economy began to slow in the second quarter, Alan Greenspan's focus shifted from curbing inflation to trying to guide the economy to a so called soft landing for the second time in his term as Federal Reserve Chairman.

For the first nine months of the fiscal year, the domestic equity market continued a three-year trend for growth stocks, and especially technology stocks, to significantly outperform value stocks. In the second quarter of 2000, the news of a possible economic slowdown resulted in a long anticipated stock market correction. The downturn affected growth stocks much more than value stocks, and as the fiscal year ended the market was seeing an emerging trend of value outperforming growth for the first time in several years.

The final two quarters of 1999 saw the bond market finish its worst calendar year since 1994 and its second worst in history. A continuing fear of inflation and the rampant equity markets drew investors away from fixed-income instruments. However, bonds rebounded in the first half of 2000 to provide a welcome diversification benefit for wary stock market investors, especially in the second quarter.

The fiscal year performance of the international equity markets was a story of two halves. For the final two quarters of 1999, the international markets flourished driven by renewed economic growth in Europe and Asia. The first half of 2000 saw the international equity market lose steam due to a strong dollar and fears of a slowing U.S. economy. After a stellar third quarter of 1999, the currency effect of the strong dollar had an overwhelming negative impact on the performance of non-US bonds in the fiscal year ended June 30.

We are experiencing continued market volatility in fiscal year 2001. A slight change in the target asset allocation was implemented in July 2000 and through on going asset allocation and manager structure review, the Board continues to position the Retirement System for competitive performance consistent with its objectives.

Callan Associates, Inc.
Callan Associates Inc.

Report on Investment Activity for State of Hawaii Employees' Retirement System

Prepared by Callan Associates Inc.
December 2000

Outline of Investment Policies

The primary goal of the Plan is the preservation of capital. The Board of Trustees seeks preservation of capital with a consistent, positive return for the Fund. Although pure speculation is to be avoided, the Board appreciates the fact that an above average return is associated with a certain degree of risk. Risk to be assumed must be considered appropriate for the return anticipated and consistent with the total diversification of the Fund.

Expected Annualized Return and Risk

Based on 1999 capital market projections for 5 years, the target allocation[1] is expected to achieve an average annualized return of 8.5% (5.5% real return with expected inflation of 3.0%). The annual nominal return is expected to fall within a range of -3.5% and 20.5% two-thirds of the time.

Long-range Asset Allocation Target

The ERS only invests in the following asset classes:

	Lower Limit	**Strategic Allocation[1]**	Upper Limit
Domestic Equity	32%	**35%** *	38%
Small/Mid Cap Equity	7%	**9%**	11%
International Equity	15%	**17%**	19%
Domestic Fixed-Income	16%	**17%** **	20%
International Fixed Income	8%	**10%**	12%
Mortgages	NA	**1%** **	NA
Equity Real Estate	7%	**9%**	11%
Alternative Investments	0	**2%** *	5%

* The alternatives target is the percentage actually invested up to 5% of the total fund. Changes in the alternatives target are offset by an equal percentage change in the large cap domestic equity target.

** The mortgage target is the percentage of the total fund actually invested. Changes in the mortgage target are offset by an equal change in the domestic bond target.

Adjustments in the above targets take place annually in conjunction with the annual asset allocation review. The target is evaluated on the basis of assets designated to each asset class by the Board,

[1] This strategic asset allocation was revised by the Board effective July 1, 2000.

rather than on a current invested position. The target is to be pursued primarily by cash flow on a long-term basis and be revised if significant changes occur within the economic and/or capital market environment according to the rebalancing guidelines. The target is to be reviewed annually for reasonableness relative to significant economic and market changes. A formal asset allocation/liability study should be conducted at least every three years to verify or amend the targets. The last formal asset allocation/liability study was completed in the first half of 1999 and the Board approved a new strategic asset allocation/liability target implemented as of July 1, 1999. The target was again reviewed and revised effective July 1, 2000.

Portfolio Evaluation Benchmark

To monitor the total fund result, a special target index was constructed to measure the target mix effective July 1, 1999[2]. This serves as a minimum performance objective for the Fund. The target index objective is included in all quarterly evaluation reports of the ERS. The composition of the index is:

- 35% of the Standard & Poor's 500 Stock Index
- 9% of the Callan Associates Medium/Small Cap Index
- 17% of the Morgan Stanley Capital International EAFE Index
- 18% of the Lehman Brothers Aggregate Bond Index
- 10% of the Salomon Brothers' Non-U.S. World Government Bond Index
- 9% of the median return of the Callan Associates Real Estate database
- 2% of the Post Venture Cap Index

Individual investment managers are not to be measured against this total fund objective. However, it is expected that the sum of their efforts exceeds the objective over time.

Manager Evaluation

Individual domestic and international equity and bond managers are measured against relevant indexes and their respective peer groups of managers. Market indexes and peer group benchmarks are assigned to each Manager and are intended as a guide for the investment manager to understand the risk/reward posture of their portfolio. Real Estate managers are measured against the median performance of the Callan Associates Real Estate database. Managers have full discretion to manage the risk posture of their portfolios relative to their designated market index and may, with conviction and appropriate expertise, execute security strategies not reflected by their market index as long as they conform to the investment guidelines and the laws of the State of Hawaii.

[2] This target index was revised by the Board effective July 1, 2000.

Investment Practices

The full Investment Policy Statement describes in detail acceptable investment practices, manager reporting requirements, manager performance guidelines, the distribution of brokerage commissions, and securities lending guidelines. The IPS was revised in March 2000.

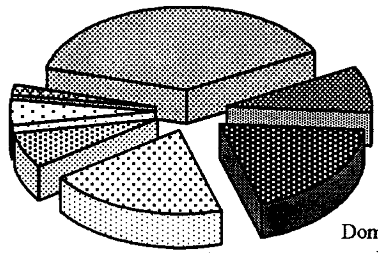
All rates of return are calculated using methodologies that are generally accepted by the Association for Investment Management and Research (AIMR). All domestic equity manager returns are daily, time-weighted rates of return based on custodial data. International equity, domestic fixed-income, and global fixed-income returns are monthly, time-weighted returns. Real estate returns are calculated using statements received directly from the manager. This ensures that the performance is based on accurate cash flows and appraisal values.

Investment Results

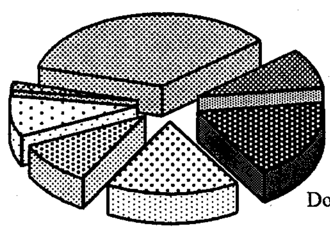
	Year Ended June 30,					Three Years Ended	Five Years Ended
	2000	1999	1998	1997	1996	6/30/2000	6/30/2000
Domestic Equity	**2.26%**	**15.98%**	**28.62%**	**30.27%**	**26.03%**	**15.12%**	**20.16%**
Standard & Poor's 500	7.24%	22.76%	30.16%	34.70%	26.00%	19.67%	23.80%
CAI Domestic Equity DB	11.63%	14.68%	25.16%	28.47%	25.41%	18.35%	21.86%
Domestic Fixed-Income	**4.94%**	**3.26%**	**10.73%**	**8.45%**	**5.11%**	**6.26%**	**6.47%**
Lehman Brothers Aggregate	4.57%	3.15%	10.54%	8.15%	5.02%	6.04%	6.25%
CAI Fixed-Income DB	4.57%	3.55%	9.99%	7.99%	5.27%	5.91%	6.24%
International Equity	**23.31%**	**13.80%**	**(2.14%)**	**18.06%**	**13.40%**	**11.15%**	**12.95%**
MSCI EAFE Index-USD	17.15%	7.62%	6.10%	12.84%	13.28%	10.18%	11.33%
CAI Non-U.S. Equity DB	24.30%	7.63%	6.48%	15.72%	16.74%	12.90%	14.87%
International Fixed-Income	**0.96%**	**1.12%**	**2.04%**	**5.80%**	**4.38%**	**1.37%**	**2.84%**
Salomon Non-U.S. Government Bond	2.42%	4.87%	0.89%	2.16%	(1.69%)	2.71%	1.71%
CAI Non-U.S. Fixed DB	1.35%	5.08%	3.50%	5.65%	6.21%	3.16%	3.77%
Real Estate	**12.92%**	**4.74%**	**17.92%**	**4.92%**	**7.48%**	**11.73%**	**9.48%**
NCREIF	11.63%	12.79%	17.45/%	10.81%	8.07%	13.93%	12.11%
CAI Total Real Estate DB	9.14%	10.42%	15.57%	9.65%	7.95%	11.72%	9.97%
Alternative Investments	**44.34%**	**(10.74%)**	**-**	**-**	**-**	**-**	**-**
Post Venture Cap Index	40.60%	48.85%	29.23%	0.24%	33.99%	39.33%	29.43%
Mortgages	**9.18%**	**9.61%**	**8.60%**	**9.15%**	**9.53%**	**9.13%**	**9.21%**
Lehman Brothers Mortgages	5.02%	4.02%	8.94%	9.11%	5.87%	5.97%	6.57%
Total Fund	**7.55%**	**10.41%**	**16.04%**	**18.78%**	**15.11%**	**11.28%**	**13.51%**
Hawaii Total Fund Target	8.55%	12.38%	17.11%	18.96%	14.58%	12.73%	14.32%

Asset Allocation as of June 30, 2000:

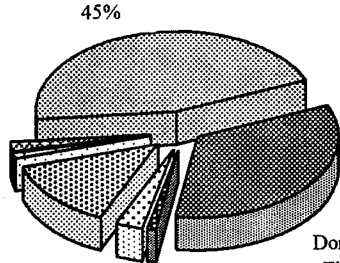
Actual Asset Allocation



Target Asset Allocation



Public Plan Sponsor Database



The Target Benchmark as of June 30, 2000 was 35% S&P 500, 9% Callan Medium and Small Cap Index, 18% Lehman Aggregate, 9% Callan Real Estate Funds, 2% Post Venture Capital Index, 17% MSCI EAFE Index and 10% Salomon Brothers Non-US Gov't Bond Index. Monies to be allocated to long-term real estate are considered to be "parked" in domestic equities until drawn down.

INVESTMENT PROFESSIONALS

CUSTODIAL BANK
Bankers Trust Company

INVESTMENT ADVISOR
Callan Associates Inc.

INVESTMENT MANAGERS

U.S. EQUITIES
- Alliance Capital Management Corporation
- Barrow, Hanley, Mewhinney & Strauss, Inc.
- Bidwell & Riddle Investment Advisory
- Bishop Street Capital Management
- Delaware Investment Advisers, LLC
- Denver Investment Advisors, LLC
- Independence Investment Associates, Inc.
- Mellon Capital Management Corporation
- Oppenheimer Capital Corporation
- Pacific Century Trust
- Prudential Investments / Jennison Associates
- Putnam Investments
- TCW Asset Management Co.
- T. Rowe Price
- 3 Bridge Capital

REAL ESTATE
- Allegis Realty Investors, LLC
- Clarion Partners
- C.B. Richard Ellis Investors, LLC
- Heitman Real Estate Services Group
- Invesco Realty Advisors
- John Hancock Real Estate Investment Group
- PM Realty Group
- PSI Institutional Realty

INTERNATIONAL EQUITIES
- Bank of Ireland Asset Management (U.S.) Ltd.
- Capital International, Inc.
- Daiwa SB Investments (USA) Ltd.
- Nomura Asset Management U.S.A., Inc.
- Schroder Investment Management North America, Inc.
- Scudder Kemper Investments, Inc.
- State Street Global Advisors

U.S. FIXED INCOME
- Bradford and Marzec, Inc.
- Brinson Partners, Inc.
- CIC/HCM Capital Management, Inc.
- Pacific Income Advisers, Inc.
- Pacific Investment Management Company

ALTERNATIVE INVESTMENTS
- Abbott Capital Management, LLC
- Hancock Timber Resource Group

INTERNATIONAL FIXED INCOME
- Oechsle International Advisors, L.P.
- Pacific Investment Management Company

List of Largest Assets Directly Held (by fair value)*

as of June 30, 2000 (excludes investments in pooled vehicles)

A complete list of holdings is available for review upon request.

Rank	Par / Shares	Security	Coupon	Due	Moody's	Fair Value
Domestic Fixed Income						
1	$ 70,865,860	United States Treasury Note (Inflation Index)	3.625%	7/15/2002	Aaa	$ 75,237,607
2	30,650,000	United States Treasury Bond	8.750%	5/15/2017	Aaa	38,561,378
3	31,900,000	Government National Mortgage Assoc. (TBA)	7.000%	7/24/2030	Aaa	31,012,781
4	28,700,000	Residential Funding Mtg Secs	6.750%	9/25/2028	Aaa	26,520,522
5	20,685,000	United States Treasury Bond	8.000%	7/15/2021	Aaa	24,986,859
6	25,000,000	Household Bank (Nevada)	Floating	10/22/2003	A2	24,835,000
7	25,178,000	United States Treasury Note	5.875%	11/15/2004	Aaa	24,812,164
8	23,860,584	FHLMC REMIC Series Tranche E003-A	6.342%	8/15/2032	Aaa	23,431,571
9	20,447,000	United States Treasury Bond	7.250%	8/15/2022	Aaa	22,983,655
10	19,530,000	United States Treasury Bond	6.250%	2/15/2027	Aaa	20,710,979
International Fixed Income						
1	$ 20,521,693	Buoni Poliennali del Tes	4.250%	11/1/2009	Aa3	$ 20,088,865
2	17,803,003	Kingdom of Greece	6.300%	1/29/2009	A2	17,414,620
3	17,504,722	Toyota Motor Credit Corporation	1.000%	12/20/2004	Aa1	17,364,259
4	19,328,470	International Bank for Rec & Dev	5.500%	11/3/2008	Aaa	17,283,833
5	17,199,029	Westpac Banking	0.875%	9/22/2003	Aa3	17,239,998
6	16,563,511	Republic of Italy	5.250%	11/1/2029	Aa3	17,111,330
7	16,911,528	Queensland Treasury Corp	6.000%	6/14/2011	Aaa	16,981,627
8	16,947,284	Kansai International Airport	1.300%	7/29/2004	n/a	16,781,256
9	18,831,224	Republic of Austria	3.900%	10/20/2005	Aaa	16,772,288
10	17,197,605	Bundesrepublik Deutschland	5.375%	1/4/2010	Aaa	16,696,563
Domestic Equities						
1	669,870	Intel Corporation				$ 89,553,246
2	1,722,567	Pfizer Inc.				82,683,216
3	1,496,860	General Electric Co.				79,333,580
4	1,057,978	Cisco Systems				67,247,727
5	1,087,050	Citigroup Inc.				65,494,763
6	693,420	Microsoft Corp				55,473,600
7	994,400	Tyco International Ltd, New				47,109,700
8	909,065	Schering Plough				45,907,783
9	1,091,850	Solectron Corp.				45,721,219
10	907,800	Dell Computer				44,765,888
International Equities						
1	835,070	Royal Dutch Petrol				$ 51,612,405
2	865,650	Nokia Corp				43,228,397
3	455,643	ING Groep NV				30,920,661
4	1,378,646	Vodafone Airtouch PLC				56,351,956
5	1,427,358	Ericsson(L.M.)(Telefonaktiebolaget)				28,397,446
6	17,454	Novartis AG				27,735,769
7	344,190	Alcatel				22,664,482
8	224,647	Sony Corp.				20,815,763
9	758	NTT Domoco Inc				20,560,925
10	239,541	Deutsche Bank AG				19,791,464

Investments Summary

(Dollar values expressed in thousands)

	Fair Value as of June 30, 2000	Percentage	Fair Value as of June 30, 1999	Percentage
Equity Securities				
Common stock	$ 4,580,015	46.4 %	$ 4,614,309	48.5 %
Index funds	1,425,957	14.4	974,990	10.2
Pooled and others	370,638	3.8	359,170	3.8
Sub-Total	6,376,610	64.6 %	5,948,469	62.5 %
Fixed Income Securities				
Mortgage-backed securities	988,096	10.0 %	1,107,214	11.6 %
U.S. Government bonds	376,913	3.8	384,791	4.0
Foreign bonds	587,294	6.0	481,764	5.1
U.S. Corporate bonds	534,030	5.4	662,089	7.0
Asset backed securities	170,464	1.7	214,584	2.2
Pooled and others	31,166	0.3	43,487	0.5
Sub-Total	2,687,963	27.2 %	2,893,929	30.4 %
Others				
Real estate equities	499,896	5.1 %	504,525	5.3 %
Real estate mortgages	110,353	1.1	122,759	1.3
Alternative investments	199,257	2.0	43,432	0.5
Sub-Total	809,506	8.2 %	670,716	7.1 %
Grand Totals	$ 9,874,079	100.0 %	$ 9,513,114	100.0 %

Schedule of Investment Fees

(Dollar values expressed in thousands)

	Fair Value as of June 30, 2000	Total FY 2000 Investment Fees	Basis Points
Equities			
U.S. Equities	$ 4,608,771		
International Equities	2,024,673		
Sub-Total	6,633,444	$ 15,144	
Fixed Income			
U.S. Bonds	1,816,076		
International Bonds	711,739		
Sub-Total	2,527,815	4,618	
Other Asset Allocations			
Real Estate	499,410		
Real Estate Mortgages	109,571		
Alternative Investments	204,887		
Sub-Total	813,868	6,422	
Other Investment Services			
Custodian Fees		211	
Investment Consultant Fees		295	
Grand Totals	$ 9,975,127	$ 26,690	27 bp

Schedule of Broker Commissions

The Employees' Retirement System participates in a Commission Recapture Program with four brokerage firms; four for domestic trades and one for international. Domestic and international investment managers are required to direct at least 35% and 50%, respectively, of all brokerage transactions to participating brokers. Commissions charged per share are based on the investment manager's normal rate schedule. All commissions recaptured are used exclusively by the ERS for the benefit of its members and beneficiaries. ERS does not guarantee participating brokers any minimums, required volumes or fees. During the fiscal year ended June 30, 2000 the ERS recaptured $1,296,254 in commissions.

The following is a list of brokers who received $50,000 or more in commissions during Fiscal Year 2000. A complete list of all commissions is available for review upon request.

Brokerage Firms	Shares Traded	Dollar Volume of Trades	Commission Dollar Amount	Commission Per Share
Merrill Lynch Pierce Fenner Smith	24,489,297	$ 581,029,899	$ 907,444	$ 0.037
Morgan Stanley Dean Witter & Co.	16,476,705	403,708,501	686,380	0.042
Travelers / Salomon Smith Barney	17,959,153	478,201,012	657,922	0.037
State Street Bank	27,553,421	921,531,931	389,613	0.014
Goldman Sachs	8,179,671	212,119,493	349,360	0.043
Rochdale Securities	5,921,628	234,448,066	348,188	0.059
Dresdner Kleinwort Benson	9,352,800	138,898,795	277,114	0.030
Hong Kong and Shanghai Banking / James Capel	6,446,552	130,071,693	266,772	0.041
Swiss Bank Corp Warburg / Dillion Read	9,734,631	100,616,431	204,118	0.021
Deutsche Morgan Grenfell / BT Alex Brown	6,893,306	108,177,039	202,910	0.029
Union Bank of Switzerland / Phillips & Drew	9,146,459	137,478,069	199,810	0.022
Lynch Jones	3,772,481	189,940,367	196,025	0.052
Donaldson & Co.	3,143,773	111,692,688	160,821	0.051
First Boston Corporation	2,484,200	93,132,866	144,757	0.058
Paine Webber Jackson & Curtis	2,238,900	75,568,153	128,429	0.057
Shearson Lehman Brothers	2,154,403	93,115,732	120,186	0.056
Credit Suisse First Boston	5,409,507	49,321,958	116,776	0.022
Broadcourt Capital Corp.	1,941,087	74,885,691	114,138	0.059
ABN AMRO (Hoare Govett)	6,223,530	40,570,642	107,462	0.017
Prudential Bache	2,398,090	67,052,190	98,017	0.041
JP Morgan Securities	1,387,905	74,300,229	92,574	0.067
Execution Services Incorp	1,632,661	75,179,507	92,007	0.056
Robert Flemings	6,654,723	31,182,432	91,136	0.014
Mesirow & Co.	1,465,300	65,471,671	84,951	0.058
Donaldson Lufkin and Jenrette Securities	3,119,552	55,886,208	81,716	0.026
Chevereaux de Virieux	945,475	29,628,234	71,227	0.075
Bear Stearns	1,189,294	48,950,942	67,725	0.057
Cazenove and Co.	2,577,108	31,288,844	67,251	0.026
County Securities	1,247,700	47,484,624	63,907	0.051
Cantor Fitzgerald & Co.	1,034,964	40,838,539	60,654	0.059
Eberstandt (F) & Co.	1,012,718	34,329,819	57,520	0.057
Investment Technology Group Inc.	2,482,280	88,719,860	50,759	0.020
OTHERS (Includes 155 Brokerage Firms)	79,905,033	946,252,313	1,439,159	0.018
Total Commissions	276,574,307	$ 5,811,074,438	7,996,828	0.029
Less Commissions Recaptured			(1,296,254)	
			$ 6,700,574	0.024
Zero Commission trades excluded above	312,055,537	$ 1,703,168,480		

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

ACTUARIAL SECTION

THE SEGAL COMPANY

330 North Brand Boulevard
Suite 500
Glendale, California
91203-2308
818-956-6714
FAX: 818-956-6790

Michael H. Kaplan, F.S.A., M.A.A.A.
Senior Vice President & Actuary

December 13, 2000

Board of Trustees
Employees' Retirement System of the State of Hawaii
City Financial Tower
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813-2980

Re: **Introductory Letter for Actuarial Section**

Dear Trustees:

The Employees' Retirement System of the State of Hawaii is funded on an actuarial reserve basis. The Retirement System's basic financial objective is to establish and receive contributions that remain relatively level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually to determine the Retirement System's actuarial liabilities and the total employer contributions required to fund the System in accordance with the provisions of Chapter 88, Hawaii Revised Statutes. Employers make appropriations to the Pension Accumulation Fund in the amounts determined by annual actuarial valuations.

The most recent actuarial valuation as of June 30, 2000 included a total of 90,922 members of the Retirement System. The actuarial value of the Retirement System's assets amounted to about $9.2 billion on June 30, 2000. The assumptions used in the 2000 actuarial valuation were adopted by the Board of Trustees based on statutory requirements and on our actuarial experience investigation covering the 1990-95 period.

This Actuarial Section includes: a summary of the 2000 actuarial valuation; our Actuarial Certification Statement; a summary of the actuarial assumptions and methods; and ten-year actuarial schedules containing information on the membership and actuarial condition of the Employees' Retirement System.

Sincerely,

Michael H. Kaplan
Senior Vice President & Actuary

TS/hy

SUMMARY OF 2000 ACTUARIAL VALUATION

Actuarial valuations are prepared annually to determine the employer contributions required to fund the Employees' Retirement System in accordance with the provisions of Chapter 88 of the Hawaii Revised Statutes, as amended. The actuarial valuation as of June 30, 2000 is the basis for determining the employer appropriations to be made to the Pension Accumulation Fund during fiscal year 2002-2003.

Principal Elements

The 2000 actuarial valuation of the Employees' Retirement System is based on four principal elements:

- **Current provisions of the contributory and noncontributory benefit plans** (as specified in Chapter 88 of the Hawaii Revised Statutes).
- **Membership data as of March 31, 2000** (obtained from computer tapes provided by the Retirement System).
- **Assets as of June 30, 2000**, which had an actuarial value of about $9.2 billion (based on information obtained from the Retirement System's audited financial statements).
- **Actuarial assumptions adopted by the Board of Trustees**, and the statutory 8% investment yield rate and variable salary growth assumptions.

Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Employees' Retirement System. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date. A summary of the current benefit and contribution provisions is presented in the Plan Summary Section of this Annual Financial Report.

Membership Data

A total of 90,922 active, inactive and retired members of the Employees' Retirement System are included in the 2000 actuarial valuation. The total membership consists of 59,191 active employees, 3,016 inactive members with vested benefit rights, and 28,715 benefit recipients.

Summary of 2000 Actuarial Valuation

Information on active, inactive and retired members is obtained from computer tapes provided by the staff of the Retirement System. Membership data contained on the computer tapes is examined and tested for reasonableness, but is not audited by the actuary.

The schedule below shows the number and average characteristics of all active employees, and employees covered by the contributory and noncontributory benefit plans. As of March 31, 2000, approximately 80% of all active employees were covered by the noncontributory plan. The number and percentage of noncontributory plan members will increase in the future because most new employees are required to be members of the noncontributory plan.

	Contributory Plan	Non-Contributory Plan	All Employees
Number of employees	11,643	47,548	59,191
Average age	48.0	45.0	45.5
Average service	20.0	11.5	13.0
Average salary	$46,061	$36,574	$38,440

The following schedule shows the distribution of the active members among the various participating employers.

Employer	Active Members	
State of Hawaii	45,451	77%
City & County of Honolulu	8,190	14
City & County of Honolulu - Board of Water Supply	657	1
County of Hawaii	2,034	3
County of Maui	1,867	3
County of Kauai	992	2
	59,191	100%

The 28,715 benefit recipients included in the 2000 actuarial valuation consist of 27,357 pensioners and 1,358 beneficiaries. For all pensioners receiving benefits on June 30, 2000, the average annual pension was $16,632. The average pension amount includes pensioners' bonuses and post-retirement benefit increases.

Tables showing changes in Retirement System membership during the past ten years from 1991 to 2000 are included in this Actuarial Section.

Actuarial Assumptions

In addition to utilizing current membership and financial data, an actuarial valuation requires the use of a series of assumptions regarding uncertain future events.

Summary of 2000 Actuarial Valuation

The assumptions used in the 2000 actuarial valuation were adopted by the Board of Trustees, based on statutory requirements and on our report on the actuarial experience investigation covering the 1990-95 period.

If the actuarial assumptions prove to be a good indicator of actual emerging experience, the actuarially-determined contribution rates will remain relatively level as a percentage of salary. Contribution rates are redetermined in connection with each annual actuarial valuation to reflect actual experience and any benefit changes enacted since the last valuation.

The actuarial assumptions and methods used in the June 30, 2000 actuarial valuation are summarized in a schedule following our Actuarial Certification Statement.

Actuarial Balance Sheet

Table 1 presents the actuarial balance sheet as of June 30, 1999 and 2000. The total actuarial present value of benefits for all members amounted to about $11.4 billion on June 30, 2000, comprised of $4.7 billion for current pensioners and beneficiaries and $6.7 billion for active employees and inactive members. The Retirement System's accumulated assets ($9.2 billion), expected future employee contributions ($0.3 billion), and expected future employer contributions ($1.9 billion) equaled the total actuarial liability as of June 30, 2000.

Between the 1999 and 2000 actuarial valuations, the unfunded actuarial accrued liability remained at $0.5 billion. As a percentage of total covered payroll, the unfunded liability decreased from 23.4% on June 30, 1999 to 20.5% on June 30, 2000.

The Retirement System's "funded ratio" - assets divided by the actuarial accrued liability - increased from 94.4% on June 30, 1999 to 95.2% as of June 30, 2000.

Employer Appropriations

In accordance with the funding provisions of Chapter 88, Hawaii Revised Statutes, employer contributions are calculated separately for two groups of covered employees: (1) police, fire and corrections officers covered by the contributory plan; and (2) all other employees. The employer contributions derived from the 2000 actuarial valuation are comprised of the normal cost, the level annual payment required to amortize the unfunded actuarial accrued liability over 16 years from July 1, 2000, and the payments required to fund the EIR program.

Table 2 shows the actuarially-determined employer appropriations based on our 1999 and 2000 actuarial valuations (appropriation years 2001-2002 and 2002-2003). Based on the results of the 2000 actuarial valuation, the employer appropriations increased by $42.3 million.

Table 3 shows the appropriations for each employer for fiscal years 2001-2002 and 2002-2003.

Summary of 2000 Actuarial Valuation

Table 4 presents highlights of the last five annual actuarial valuations of the Employees' Retirement System, which are the basis for determining employer appropriations for fiscal years 1998-99 through 2002-2003.

Early Incentive Retirement (EIR) Program

Act 212/1994, effective July 1, 1994, allowed up to two years of additional service credit for certain members of the Employees' Retirement System as an incentive to retire immediately on a service pension. In addition, no age reduction penalties would be applied to those members opting for retirement under this program. Employees of the Department of Education or the University of Hawaii with at least 25 years of credited service by December 31, 1994 had to retire on June 30, 1995 under the EIR Program. All other employees with at least 25 years of credited service at the time of retirement had to retire no later than December 31, 1994.

There were 2,925 employees who retired under the EIR Program. Of these, 1,485 retired in 1994 and 1,440 retired in 1995. This represents about 39% of the approximately 7,600 employees who were eligible to retire under the EIR Program.

Funding for the cost of the additional benefits paid under the EIR Program is to be handled differently from the standard funding of the Employees' Retirement System. Each employer will be responsible for the additional costs arising from its employees who retired under the program. Originally, this was to be assessed in five equal payments. Act 216/2000 extended the time period to coincide with the period used in amortizing the System's unfunded actuarial accrued liability. Table 5 shows the additional costs of the EIR Program under both Acts.

Our **Actuarial Certification Statement**, which follows Tables 1 through 5, shows the detailed actuarial cost factors derived from the 2000 actuarial valuation.

Table 1

Actuarial Balance Sheet as of June 30, 1999 and 2000

	1999	2000
ASSETS		
Total current assets	$8,590,807,400	$ 9,204,707,100
Present value of future employee contributions	$ 359,448,900	$ 329,597,800
Present value of future normal costs	$1,191,588,000	$ 1,303,361,100
Unfunded actuarial accrued liability	$ 510,812,700	$ 465,579,100
Present value of future Early Incentive Retirement Program employer contributions	$ 80,110,400	$ 77,736,700
TOTAL ACTUARIAL ASSETS	$10,732,767,400	$11,380,981,800
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	$4,439,884,600	$ 4,659,521,500
Present value of future benefits to active members and inactive members	$6,292,882,800	$ 6,721,460,300
TOTAL ACTUARIAL LIABILITIES	$10,732,767,400	$11,380,981,800

Table 2

Calculated Employer Contribution Requirements as of June 30, 1999 and 2000

DOLLAR AMOUNTS	1999	2000
	ALL EMPLOYEES	
Normal Cost	$141,224,100	$152,997,400
Amortization Payment	51,851,900	48,703,400
Subtotal	$193,076,000	$201,700,800
EIR Payment	8,131,900	8,131,900
Excess Investment Earnings Credit	(33,749,000)	-
Total Appropriations	$167,458,900	$209,832,700
	POLICE, FIRE AND CORRECTIONS	
Normal Cost	$ 38,983,200	$ 29,065,400
Amortization Payment	(5,873,000)	(19,996,000)
Subtotal	$ 33,110,200	$ 9,069,400
EIR Payment	523,000	523,000
Excess Investment Earnings Credit	(121,400)	-
Total Appropriations	$ 33,511,800	$ 9,592,400
	ALL OTHER EMPLOYEES	
Normal Cost	$102,240,900	$123,932,000
Amortization Payment	57,724,900	68,699,400
Subtotal	$159,965,800	$192,631,400
EIR Payment	7,608,900	7,608,900
Excess Investment Earnings Credit	(33,627,600)	-
Total Appropriations	$133,947,100	$200,240,300

Table 2 (continued)

PERCENTAGES OF TOTAL PAYROLL	1999	2000
	ALL EMPLOYEES	
Normal Cost	6.46%	6.72%
Amortization Payment	2.37	2.14
Subtotal	8.83%	8.86%
EIR Payment	0.37	0.36
Excess Investment Earnings Credit	-1.54	-
Total Appropriations	7.66%	9.22%
	POLICE, FIRE AND CORRECTIONS	
Normal Cost	18.01%	13.17%
Amortization Payment	-2.71	-9.06
Subtotal	15.30%	4.11%
EIR Payment	0.24	0.24
Excess Investment Earnings Credit	-0.06	-
Total Appropriations	15.48%	4.35%
	ALL OTHER EMPLOYEES	
Normal Cost	5.19%	6.03%
Amortization Payment	2.93	3.35
Subtotal	8.12%	9.38%
EIR Payment	0.39	0.37
Excess Investment Earnings Credit	-1.71	-
Total Appropriations	6.80%	9.75%

Note: Total annual payroll as of March 31, 2000 was $2,275,297,776 for all employees, comprised of $220,697,292 for police-fire-corrections and $2,054,600,484 for all other employees. (The comparable figures for March 31, 1999 are $2,186,498,844, $216,476,328 and $1,970,022,516, respectively.)

Table 3

Employer Appropriations to Pension Accumulation Fund for 2001-2002 and for 2002-2003 by Employer and Employee Groups

Employer	Appropriations for 2001-2002			Appropriations for 2002-2003		
	Police, Fire & Corrections	All Other Employees	Total	Police, Fire & Corrections	All Other Employees	Total
State of Hawaii	$1,611,700	$112,372,300	$113,984,000	$ 492,300	$166,992,800	$167,485,100
City & County of Honolulu	21,870,300	12,515,600	34,385,900	6,182,500	19,344,200	25,526,700
City & County of Honolulu – Board of Water Supply	-	1,622,600	1,622,600	-	2,500,000	2,500,000
County of Hawaii	4,545,700	2,888,800	7,434,500	1,332,100	4,449,400	5,781,500
County of Maui	3,782,300	2,976,200	6,758,500	1,057,000	4,519,000	5,576,000
County of Kauai	1,701,800	1,571,600	3,273,400	528,500	2,434,900	2,963,400
All Employers	$33,511,800	$133,947,100	$167,458,900	$9,592,400	$200,240,300	$209,832,700

Table 4

Highlights of Annual Actuarial Valuations
1996 through 2000

Item	Valuation Date: June 30				
	1996	1997	1998	1999	2000
Number of active members	56,985	57,044	57,797	58,387	59,191
Number of inactive vested members	2,290	2,456	2,650	2,777	3,016
Number of pensioners	25,975	26,152	26,257	26,709	27,357
Average monthly contributory plan pension amount	$1,204	$1,257	$1,312	$1,367	$1,419
Average monthly noncontributory plan pension amount	$1,116	$1,044	$1,132	$1,129	$1,142
Number of beneficiaries	951	1,021	1,146	1,241	1,358
Average monthly beneficiary amount	$653	$690	$732	$771	$805
Total actuarial value of assets (millions)(1)	$6,084.8	$7,268.5	$7,906.2	$8,590.8	$9,204.7
Item (Dollar amounts in millions)	**Appropriation Year**				
	1998-99	**1999-2000**	**2000-2001**	**2001-2002**	**2002-2003**
Total calculated appropriations(1)	$218.8	$171.2	$156.3	$193.1	$201.7
EIR Program appropriations	26.4	8.1	8.1	8.1	8.1
Excess investment earnings credit(1)	(90.7)	(156.9)	(156.3)	(33.7)	-
Net employer appropriations	$154.5	$ 27.4	$ 8.1	$167.5	$209.8

(1) Figures from 1997, 1998, and 1999 valuations have been revised to reflect Act 100/1999 and related lawsuit, Act 216/2000, and Board change of June 30, 1997 actuarial asset value.

THE SEGAL COMPANY

Table 5

Employer Allocation of EIR Program Costs

	ORIGINAL APPROPRIATIONS UNDER ACT 212/1994					
	General & Teachers		Police, Fire & Corrections Officers		Total	
	Cost	5 Year Payment	Cost	5 Year Payment	Cost	5 Year Payment
State of Hawaii	$ 89,207,600	$20,687,600	$ 257,500	$ 59,700	$ 89,465,100	$20,747,300
City & County of Honolulu	11,235,600	2,605,600	5,965,300	1,383,400	17,200,900	3,989,000
City & County of Honolulu - Board of Water Supply	1,152,100	267,200	-	-	1,152,100	267,200
County: Hawaii	1,184,500	274,700	888,100	206,000	2,072,600	480,700
County: Maui	1,761,500	408,500	585,000	135,700	2,346,500	544,200
County: Kauai	822,600	190,800	709,000	164,400	1,531,600	355,200
Total	$105,363,900	$24,434,400	$8,404,900	$1,949,200	$113,768,800	$26,383,600
	REVISED APPROPRIATIONS UNDER ACT 216/2000					
	General & Teachers		Police, Fire & Corrections Officers		Total	
	Balance as of 6/30/97	19 Year Payment	Balance as of 6/30/97	19 Year Payment	Balance as of 6/30/97	19 Year Payment
State of Hawaii	$ 68,490,500	$ 6,603,500	$ 166,200	$ 16,000	$ 68,656,700	$ 6,619,500
City & County of Honolulu	7,252,100	699,200	3,849,600	371,200	11,101,700	1,070,400
City & County of Honolulu - Board of Water Supply	743,700	71,700	-	-	743,700	71,700
County: Hawaii	764,600	73,700	573,400	55,300	1,338,000	129,000
County: Maui	1,137,000	109,600	377,700	36,400	1,514,700	146,000
County: Kauai	531,000	51,200	457,600	44,100	988,600	95,300
Total	$ 78,918,900	$ 7,608,900	$ 5,424,500	$523,000	$ 84,343,400	$ 8,131,900

December 13, 2000

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

Actuarial Certification Statement

This is to certify that The Segal Company has prepared an actuarial valuation of the Employees' Retirement System of the State of Hawaii as of June 30, 2000.

Actuarial calculations were made with respect to 59,191 participating employees with an annual payroll of $2,275,297,776; 3,016 inactive members with vested benefit rights; 27,357 pensioners and special annuitants; and 1,358 beneficiaries.

	Police, Fire and Corrections Officers	All Other Employees
The actuarial cost factors are as follows:		
Normal cost	$ 29,065,400	$ 123,932,000
Present value of future benefits		
Active employees	$1,017,277,700	$5,449,186,900
Inactive members	3,059,900	251,935,800
Pensioners and beneficiaries	688,508,000	3,971,013,500
Total	$1,708,845,600	$9,672,136,200
Present value of future employer and employee contributions		
Present value of future normal costs	$ 211,694,100	$ 1,091,667,000
Present value of future employee contributions	197,154,200	132,443,600
Present value of future Early Incentive Retirement Program Employer contributions	4,999,600	72,737,100
Total	$ 413,847,900	$1,296,847,700
Actuarial accrued liability	$1,294,997,700	$8,375,288,500
Actuarial value of assets		
Annuity Savings Fund	$ 379,124,300	$ 558,830,100
Pension Accumulation Fund	1,107,024,800	7,159,727,900
Total	$1,486,149,100	$7,718,558,000
Unfunded actuarial accrued liability	($ 191,151,400)	$ 656,730,500
Appropriations for Fiscal Year ending June 30, 2003		
Normal cost	$ 29,065,400	$ 123,932,000
Amortization payment (over 16 years)	(19,996,000)	68,699,400
Employer contribution requirement	$ 9,069,400	$ 192,631,400
EIR payment	523,000	7,608,900
Total	$ 9,592,400	$ 200,240,300

THE SEGAL COMPANY

330 North Brand Boulevard
Suite 500
Glendale, California
91203-2308
818-956-6714
FAX: 818-956-6790

Michael H. Kaplan, F.S.A., M.A.A.A.
Senior Vice President & Actuary

Summary of 2000 Actuarial Valuation

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

***Actuarial Certification** (continued)*

The actuarial valuation as of June 30, 2000 was based on the provisions of Chapter 88 of the Hawaii Revised Statutes, as amended. The assumptions used in the cost calculations were those adopted by the Board of Trustees based on statutory requirements and on our actuarial experience investigation report covering the 1990-95 period. The actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures.

In our opinion, the contributions required to meet the System's liabilities were calculated in accordance with the provisions of Chapter 88 regarding the funding of the Employees' Retirement System on an actuarial reserve basis.

Michael H. Kaplan, F.S.A., M.A.A.A.
Senior Vice President & Actuary

TS/hy

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

The actuarial assumptions used in the June 30, 2000 actuarial valuation were adopted by the Board of Trustees after review and discussion of our report on the actuarial experience investigation covering the 1990-95 period.

The basic economic assumptions are a statutory investment yield rate of 8% per year compounded, and assumed salary increases that are based on recent experience. The economic assumptions are based on an assumed long-term inflation rate of 4% per year.

Investment Yield. As specified in Section 88-122(b) of Chapter 88, Hawaii Revised Statutes, the long-term rate of investment yield on the assets of the Retirement System is assumed to be 8% per year.

Beginning with the 1996-97 fiscal year, the actuarial investment income is the sum of the expected net investment income based on the actuarial assumption of 8% and a four-year smoothing of the difference between the market value of assets at year-end and the expected actuarial value of assets. In prior years, the actuarial investment income was the sum of interest, dividends and net realized gains less net realized losses and investment expenses.

Salary Increases. The actuarial cost calculations are based on the statutory assumption that salaries will increase at constant annual rates that are based on a three year average of recent salary increases. For the June 30, 2000 valuation, the expected future salary growth assumptions are 4.0% annually for General Employees, 5.9% annually for Teachers, and 2.5% annually for Police, Fire and Corrections Officers. This is specified in the 1998 amendment to Section 88-122(b) of Chapter 88, Hawaii Revised Statutes.

Retirement Rates.

The assumed retirement rates for employees eligible to retire under the contributory plan at selected ages are as follows:

Age	General Employees		Teachers		Police, Fire and Corrections Officers
	Men	Women	Men	Women	Men & Women
45	3.0%	1.0%	0.0%	1.0%	35.0%
50	3.0	1.0	1.0	1.0	20.0
55	15.0	20.0	25.0	30.0	35.0
60	10.0	10.0	15.0	20.0	90.0
65	40.0	50.0	35.0	40.0	100.0
70	100.0	100.0	100.0	100.0	100.0

Summary of 2000 Actuarial Valuation

The assumed retirement rates for employees eligible to retire under the non-contributory plan at selected ages and the average retirement age based on the assumed rates are as follows:

Age	General Employees		Teachers	
	Men	Women	Men	Women
55	7.0%	7.0%	8.0%	10.0%
60	7.0	10.0	5.0	10.0
65	60.0	40.0	20.0	30.0
70	100.0	100.0	100.0	100.0

Withdrawal Rates The withdrawal rates assumed for the central age of each five-year age group are as follows:

Assumed Withdrawal Rates (%)

Age	General Employees		Teachers		Police, Fire and Corrections Officers
	Men	Women	Men	Women	Men & Women
22	9.21%	8.99%	4.36%	7.62%	2.80%
27	6.00	7.20	4.32	6.53	3.79
32	5.00	6.05	4.25	5.35	3.40
37	3.86	4.17	4.14	3.98	2.08
42	2.92	2.93	3.65	2.63	1.27
47	2.47	2.55	2.45	1.72	1.16
52	2.08	2.12	1.84	1.32	1.33

Disability Rates. The assumed total disability rates are shown below for the central age of each five-year age group:

Assumed Disability Rates (%)

Age	General Employees	Teachers	Police, Fire and Corrections Officers
	Men & Women	Men & Women	Men & Women
22	0.02%	0.01%	0.02%
27	0.02	0.01	0.02
32	0.02	0.01	0.02
37	0.02	0.01	0.03
42	0.04	0.02	0.05
47	0.08	0.04	0.10
52	0.18	0.09	0.22

The percentage of disabilities assumed to be ordinary varied by employee group as follows: 75% for general employees, 100% for teachers, and 50% for police-fire-corrections officers.

Summary of 2000 Actuarial Valuation

Mortality Rates. The mortality tables used in the actuarial valuation are based on: (1) the 1983 Group Annuity Mortality Table (without margin) for general employees and police-fire-corrections officers, and (2) the 1983 Group Annuity Mortality Table (with margin) for teachers. For purposes of actuarial valuations it is assumed that disability pensioners will have the same mortality experience as an individual of the same sex who is ten years older (six year older for Police-Fire-Corrections) than the disability pensioner.

The life expectancies projected by the assumed mortality tables are shown below for each fifth year from ages 40 through 80.

Age	General Employees		Teachers		Police, Fire and Corrections Officers	
	Men	Women	Men	Women	Men	Women
40	38.4	43.6	42.3	44.5	37.4	43.6
45	33.7	38.7	37.5	39.9	32.7	38.7
50	29.1	34.0	32.8	34.9	28.2	34.0
55	24.7	29.3	28.3	30.2	23.9	29.3
60	20.6	24.8	24.0	25.7	19.8	24.8
65	16.6	20.5	19.8	21.3	15.9	20.5
70	13.1	16.4	16.0	17.1	12.4	16.4
75	10.1	12.7	12.5	13.4	9.5	12.7
80	7.5	9.6	9.6	10.2	7.1	9.6

Unused Sick Leave. Employees who retire or leave government service with 60 or more days of unused sick leave receive additional service credit as follows: three months credit for the first 60 days plus another month for each additional 20 days. For purposes of actuarial valuations, it is assumed that the average employee will accumulate 11 days of unused sick leave per year.

Summary of 2000 Actuarial Valuation

Asset Valuation Method

The actuarial value of Plan assets as of June 30, 2000 was determined by first computing the expected actuarial value of assets using the assumed 8.0% rate of return. This preliminary value was then adjusted by recognizing, over a four-year period, the difference between the expected actuarial value of assets and the market value of assets. This development is shown below:

1)	Actuarial Value at Beginning of Year	$8,590,807,400
2)	Contributions (State, Counties & Members)	79,750,300
3)	Benefit Payments & Refunds	(518,719,900)
4)	Average Value of Assets = Item (1) + 0.5 x [Item (2) + Item (3)]	8,371,322,600
5)	Expected Investment Income @ 8% = .08 x Item (4)	669,705,800
6)	Expected Actuarial Value at End of Year = Item (1) + Item (2) + Item (3) + Item (5)	8,821,543,600
7a)	Market Value of Assets at End of Year	9,941,931,700
7b)	Outstanding Excess Investment Earnings Credits (Act 100/1999)	190,014,500
7c)	Adjusted Market Value of Assets = Item (7a) – Item (7b)	9,751,917,200
8)	Market Value Excess = Item (7c) - Item (6)	930,373,600
9)	Determination of Market Value Excess for Current Year	
	a) Balance from 3 Years Ago	-0-[1]
	b) Balance from 2 Years Ago	532,415,700
	c) Balance from 1 Year Ago	209,593,800
	d) Amount for Current Year	188,364,100
10)	Amortization of Market Value Excess	
	a) Write-up from 3 Years Ago	-0-
	b) Write-up from 2 Years Ago	266,207,900
	c) Write-up from 1 Year Ago	69,864,600
	d) Write-up for Current Year	47,091,000
	e) Total Excess Investment Return	383,163,500
11)	Actuarial Value at End of Year = Item (6) + Item (10e)	9,204,707,100
12)	Annuity Savings Fund	937,954,400
13)	Pension Accumulation Fund = Item (11) - Item (12)	8,266,752,700
14)	Reserve for Future Years = Item (7c) - Item (11)	547,210,100
15)	Total Actuarial Investment Income = Item (5) + Item (10e)	1,052,869,300
16)	Actuarial Investment Return = Item (15)/Item (4)	12.58%

[1] Balance set to zero as a result of Board's January, 1999 action.

Summary of 2000 Actuarial Valuation ....

The Reserve for Future Years, item (14), is the excess of the market value over the actuarial value that is not being recognized in the current actuarial valuation. When the market value is greater than the actuarial value, the reserve will be positive; when the market value is less than the actuarial value, the reserve will be negative. Under the method adopted by the Board, the reserve as of any valuation will be gradually recognized during the following three valuations. By spreading the recognition period over a multi-year period, the Board is dampening the volatility inherent in market values of assets and is more able to stabilize the employer appropriations that are, in part, dependent on the relationship between the ERS's liabilities and assets.

Funding Method

The actuarial cost or funding method used to calculate the employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, the employer contribution is comprised of the "normal cost" plus the level annual payment required to amortize the unfunded actuarial accrued liability over the remaining period of 16 years from July 1, 2000. The employer normal cost is the level percentage of payroll contribution required to pay all benefits. Actuarial gains and losses resulting from differences between actual and assumed experience are reflected in the employer unfunded accrued liability. Table 6 presents an analysis of these gains and losses for the year ended June 30, 2000.

Table 6

Analysis of Financial Experience

Gains/(Losses) in Accrued Liabilities During Year Ended June 30, 2000 Resulting from Differences Between Assumed Experience & Actual Experiences

Type of Activity	
Age & Service Retirements. If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	$(2,209,400)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(2,887,200)
Withdrawal From Employment (including death-in-service). If more liabilities are released by withdrawals and deaths than assumed, there is a gain. If smaller releases, a loss.	(6,599,500)
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	26,522,400
Investment Income. If there is greater investment income than assumed, there is a gain. If less income, a loss.	383,163,500
Death After Retirement. If retirants live longer than assumed, there is a loss. If not as long, a gain.	1,326,100
Other. Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, new members, etc.	6,269,400
Gain (or Loss) During Year From Financial Experience	$405,585,300
Non-Recurring Items. Adjustment for change in salary growth assumptions.	(181,795,300)
Composite Gain (or Loss) During Year	$223,790,000

TEN-YEAR ACTUARIAL SCHEDULES

- Retirement System Membership, 1991 to 2000
- Active Member Valuation Data, 1991 to 2000
- Pensioners, Average Annual Pension, and Active Member/Pensioner Comparison, 1991 to 2000
- Assets, Unfunded Accrued Liability, and Funded Ratios, 1991 to 2000
- Solvency Test, 1991 to 2000
- Employer Contribution Rates as Percentage of Payroll, 1991 to 2000
- Employer Appropriations to Pension Accumulation Fund, Appropriation Years 1993-94 to 2002-2003
- Number of Retirants and Beneficiaries, 1991 to 2000

RETIREMENT SYSTEM MEMBERSHIP, 1991 TO 2000

March 31	Active Employees	Inactive Vested Members	Pensioners & Beneficiaries	Total Membership
1991	53,595	2,009	21,199	76,803
1992	55,410	1,991	21,787	79,188
1993	57,467	2,051	22,387	81,905
1994	58,890	2,192	22,905	83,987
1995	58,498	2,189	25,360	86,047
1996	56,985	2,290	26,926	86,201
1997	57,044	2,456	27,173	86,673
1998	57,797	2,650	27,403	87,850
1999	58,387	2,777	27,950	89,114
2000	59,191	3,016	28,715	90,922

ACTIVE MEMBER VALUATION DATA, 1991 TO 2000

March 31	Number of Active Employees	Average Annual Salary	Percent Change in Average Annual Salary	Total Payroll (millions)	Percent Change in Total Payroll
1991	53,595	$31,273	5.5%	$1,676.1	9.6%
1992	55,410	33,002	5.5	1,828.7	9.1
1993	57,467	34,386	4.2	1,976.1	8.1
1994	58,890	34,470	0.2	2,029.9	2.7
1995	58,498	35,608	3.3	2,083.0	2.6
1996	56,985	34,923	(1.9)	1,990.1	(4.5)
1997	57,044	35,398	1.4	2,019.3	1.5
1998	57,797	36,956	4.4	2,135.9	5.8
1999	58,387	37,448	1.3	2,186.5	2.4
2000	59,191	38,440	2.6	2,275.3	4.1

PENSIONERS, AVERAGE ANNUAL PENSION, AND ACTIVE MEMBER/PENSIONER COMPARISON, 1991 TO 2000

March 31	Number of Pensioners	Average Annual Pension	Ratio of Active Members Per Pensioner
1991	20,665	$10,500	2.6
1992	21,207	11,200	2.6
1993	21,763	11,841	2.6
1994	22,237	12,468	2.6
1995	24,517	13,452	2.4
1996	25,975	14,364	2.2
1997	26,152	14,976	2.2
1998	26,257	15,552	2.2
1999	26,709	16,116	2.2
2000	27,357	16,632	2.2

Note: Average pension amounts include post retirement allowances and pensioners bonuses.

ASSETS, UNFUNDED ACCRUED LIABILITY, AND FUNDED RATIOS, 1991 TO 2000

Actuarial Valuation as of June 30	Valuation Assets (millions)	Unfunded Accrued Liability - UAL (millions)	UAL as Percentage of Total Payroll	Assets as Percentage of UAL Plus Assets
1991	$4,080.8	$ 449.6	26.8%	90.1%
1992	4,241.9	443.5	24.3	90.5
1993	4,680.7	436.8	22.1	91.5
1994	5,146.8	429.7	21.2	92.3
1995	5,615.9	1,783.9	85.6	75.9
1996	6,084.8	1,314.8	66.1	82.2
1997	7,268.5	649.0	32.1	91.8
1998	7,906.2	503.5	23.6	94.0
1999	8,590.8	510.8	23.4	94.4
2000	9,204.7	465.6	20.5	95.2

Note: Unfunded accrued liabilities for 1988 - 1994 are not comparable with amounts shown for later years. Beginning 1995, the funding method was changed from Frozen Initial Liability Actuarial Cost Method to Entry Age Normal Actuarial Cost Method. Beginning 1997, the actuarial value of assets was changed from book value to a market related value.

SOLVENCY TEST, 1991 to 2000 (AMOUNTS IN MILLIONS)

June 30	Actuarial Accrued Liabilities			Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
	Member Contributions (1)	Retirees and Beneficiaries and Inactive Vested Members (2)	Active Members Employer Financed Portion (3)		(1)	(2)	(3)
1991	$832.6	$2,126.7	$2,587.9	$4,080.8	100%	100%	43.3%
1992	824.6	2,308.4	2,959.5	4,241.9	100	100	37.5
1993	859.9	2,635.9	3,180.0	4,680.7	100	100	37.3
1994	910.0	2,842.6	3,246.7	5,146.8	100	100	42.9
1995	780.7	3,530.0	3,089.1	5,615.9	100	100	42.3
1996	811.6	4,091.3	2,496.8	6,084.8	100	100	47.3
1997	830.7	4,369.8	2,716.9	7,268.5	100	100	76.1
1998	883.5	4,472.7	3,053.5	7,906.2	100	100	83.5
1999	902.2	4,682.2	3,517.2	8,590.8	100	100	85.5
2000	938.0	4,914.5	3,817.8	9,204.7	100	100	87.8

Note: Actuarial accrued liabilities for 1988-94 are not comparable with amounts shown for later years. For 1988-1994, the sum of the three actuarial accrued liabilities equals the total pension benefit obligation. Beginning 1995, the actuarial accrued liabilities are equal to the actuarial accrued liability under the Entry Age Normal Actuarial Cost Method.

EMPLOYER CONTRIBUTION RATES AS PERCENTAGE OF PAYROLL, 1991 TO 2000

Actuarial Valuation as of June 30	Police-Fire-Corrections			All Other Employees			All Active Employees		
	Normal Cost Rate	Amortization Percent	Total Employer Rate	Normal Cost Rate	Amortization Percent	Total Employer Rate	Normal Cost Rate	Amortization Percent	Total Employer Rate
1991	22.86%	3.02%	25.88%	15.09	2.25%	17.34%	15.87%	2.33%	18.20%
1992	25.34	2.87	28.21	16.18	2.05	18.23	17.06	2.13	19.19
1993	25.55	2.77	28.32	16.59	1.89	18.48	17.42	1.97	19.39
1994	17.71	2.68	20.39	12.88	1.84	14.72	13.33	1.92	15.25
1995	15.95	7.24	23.19	5.38	8.65	14.03	6.39	8.52	14.91
1996	14.23	1.23	15.46	3.76	3.19	6.95	4.76	3.00	7.76
1997	18.40	-11.36	7.04	3.87	-3.45	0.42	5.38	-4.27	1.11
1998	11.47	-11.22	0.25	4.28	-3.88	0.40	4.99	-4.61	0.38
1999	18.01	-2.53	15.48	5.19	1.61	6.80	6.46	1.20	7.66
2000	13.17	-8.82	4.35	6.03	3.72	9.75	6.72	2.50	9.22

Note: Rates for 1988-1994 are not comparable with rates shown for later years. Beginning 1995, Amortization Percent includes EIR payment percentage and Excess Investment Earnings Credit percentage. Also, beginning 1995, the funding method was changed from Frozen Initial Liability Actuarial Cost Method to Entry Age Normal Actuarial Cost Method. Beginning 1997, the actuarial value of assets was changed from book value to a market related value.

EMPLOYER APPROPRIATIONS TO PENSION ACCUMULATION FUND APPROPRIATION YEARS 1993-1994 TO 2002-2003 (AMOUNTS IN MILLIONS)

Fiscal Year	Investment Yield Rate		Appropriation Year	Total Calculated Contribution[1]	Investment Earnings Adjustment	Employer Appropriations
	Assumed for Actuarial Valuation	Actuarial Investment Return				
1990-1991	8.0%	8.65%	1993-1994	$305.0	$ (24.6)	$280.4
1991-1992	8.0	12.17	1994-1995	351.0	(178.9)	172.1
1992-1993	8.0	10.02	1995-1996	383.3	(95.2)	288.1
1993-1994	8.0	7.76	1996-1997	309.4	12.7	322.1
1994-1995	8.0	6.19	1997-1998	310.6	-0-[2]	310.6
1995-1996	8.0	9.99	1998-1999	245.2	(90.7)	154.5
1996-1997	8.0	13.72[3]	1999-2000	179.3	(156.9)	27.4
1997-1998	8.0	11.68	2000-2001	164.4	(156.3)	8.1
1998-1999	8.0	12.33	2001-2002	201.2	(33.7)	167.5
1999-2000	8.0	12.58	2002-2003	209.8	-	209.8

(1) Beginning in appropriation year 1997-98, total calculated contribution includes appropriations for the Early Incentive Retirement program.
(2) $99.4 million in additional employer contributions were deferred pursuant to the pension reform provisions in Act 327/1997.
(3) Beginning with the 1996-97 fiscal year, the actuarial investment income is the sum of the expected net investment income based on the actuarial assumption of 8% and a four-year smoothing of the difference between the market value of assets at year-end and the expected actuarial value of assets. In prior years, the actuarial investment income was the sum of interest, dividends and net realized gains less net realized losses and investment expenses.

NUMBER OF RETIRANTS AND BENEFICIARIES, 1991-2000

As of March 31	Added to Rolls	Removed from Rolls	Total	Average annual pension
1991	1,170	363	21,521	$ 10,500
1992	1,002	278	22,245	11,200
1993	1,060	317	22,988	11,841
1994	1,037	302	23,723	12,468
1995	2,301	664	25,360	13,452
1996	2,249	683	26,926	14,364
1997	943	696	27,173	14,976
1998	1,013	783	27,403	15,552
1999	1,311	764	27,950	16,116
2000	1,549	784	28,715	16,632

STATE RETIREMENT SYSTEM'S FUNDED RATIOS

Funded Ratio	Number of General State Retirement Systems (excluding separate systems for teachers, school employees or municipal employees)						
100% or more	21	Kentucky	(121%)	California	(120%)	New Hampshire	(120%)
		Arizona	(116%)	Delaware	(116%)	Florida	(113%)
		New Jersey	(113%)	Idaho	(112%)	Pennsylvania	(112%)
		Indiana	(109%)	Minnesota	(109%)	North Dakota	(108%)
		Arkansas	(107%)	Texas	(107%)	Alabama	(106%)
		Michigan	(106%)	Alaska	(105%)	Wyoming	(105%)
		Colorado	(102%)	Ohio	(102%)	Utah	(101%)
90% to 99%	14	N. Carolina	(99%)	New Mexico	(99%)	Tennessee	(99%)
		S. Carolina	(98%)	Iowa	(97%)	Maryland	(97%)
		South Dakota	(96%)	Wisconsin	(95%)	Georgia	(94%)
		Hawaii	**(93%)***	Oregon	(93%)	W. Virginia	(93%)
		Montana	(92%)	Vermont	(91%)		
80% to 89%	9	Missouri	(89%)	Massachusetts	(87%)	Virginia	(87%)
		Kansas	(86%)	Mississippi	(82%)	Nevada	(82%)
		Oklahoma	(82%)	Washington	(82%)	Rhode Island	(80%)
70% to 79%	3	Illinois	(79%)	Maine	(74%)	Louisiana	(73%)
Less than 70%	1	Connecticut	(58%)				

Source: National Education Association Research Division, Characteristics of 100 Large Public Pension Plans (September, 2000), Table 7, pp. 56-58, as summarized by The Segal Company.

Note: GASB 25 funded ratios are shown for 48 general state retirement systems for valuation year(s) through March 31, 2000. A funded ratio is not shown for the Nebraska System because it is a defined contribution plan. A funded ratio for the New York System does not exist because of its use of the Aggregate Cost Method.

*Hawaii's GASB 25 funded ratio for fiscal year ended June 30, 2000 was 94%.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

STATISTICAL SECTION

PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS
As of March 31,

	2000		1999	
	Active Members	Percentage	Active Members	Percentage
State of Hawaii	45,451	77%	44,645	77%
City & County of Honolulu	8,190	14	8,215	14
- Board of Water Supply	657	1	673	1
Hawaii County	2,034	3	1,998	3
Maui County	1,867	3	1,878	3
Kauai County	992	2	978	2
	59,191	100%	58,387	100%

REVENUES BY SOURCE

Year ended June 30,	Employer appropriations (1)	Employer appropriations as a percentage of covered payroll (2)	Member contributions	Net investment income (3)	Total
1991	$ 119,176,380	7.11%	$ 64,784,980	$ 328,520,376	$ 512,481,736
1992	120,426,998	6.59	65,946,450	522,246,156	708,619,604
1993	246,604,754	12.48	66,378,221	473,157,572	786,140,547
1994	298,723,670	14.72	63,288,694	402,487,400	764,499,764
1995	192,536,598	9.24	65,720,847	340,909,684	599,167,129
1996	288,070,687	14.48	53,766,483	1,176,991,469 *	1,518,828,639
1997	322,141,010	15.95	54,364,380	1,293,952,952	1,670,458,342
1998	310,627,135	14.54	56,168,443	1,251,839,166	1,618,634,744
1999	154,469,844	7.06	55,702,647	904,809,348	1,114,981,839
2000	22,392,100	0.98	57,358,185	695,151,054	774,901,339

(1) Employer appropriations were made in accordance with actuarially determined contribution requirements. Prior to Fiscal Year 1996, employer appropriations included funding for administrative expenses.

(2) Annual covered payroll as of March 31

(3) Prior to Fiscal Year 1997, assets were reported at cost, thus net investment income includes only realized gains and losses plus dividends, interests, and other earnings. Effective July 1, 1996, ERS adopted GASB Statement 25 changing from reporting investments at cost to reporting investments at fair value (includes unrealized gains and and losses).

* Includes recognition of previously deferred income and net unrealized gains and losses totaling $594,325,421 as a result of adoption of GASB Statement 25.

EXPENSES BY TYPE

Year ended June 30,	Benefit Payments	Refunds to Members	Administrative Expenses	Other	Total
1991	$ 230,395,965	$ 44,453,406	$ 2,297,960	$ -	$ 277,147,331
1992	249,339,809	34,954,081	2,446,107	-	286,739,997
1993	269,789,684	39,454,960	2,274,981	-	311,519,625
1994	291,607,978	39,784,949	2,875,676	-	334,268,603
1995	324,791,714	83,413,799	2,896,684	-	411,102,197
1996	386,734,078	70,978,627	2,960,240	-	460,672,945
1997	410,522,020	26,174,454	3,217,348	-	439,913,822
1998	422,026,149	24,763,224	3,331,700	-	450,121,073
1999	444,047,239	39,151,493	3,775,942	29,272	487,003,946
2000	471,243,914	47,475,961	4,168,717	-	522,888,592

BENEFIT PAYMENTS BY TYPE

Year ended	Benefits				Refunds of Members	
June 30,	Service	Disability	Death	Sub-total	Contributions	Total
1991	$ 220,032,253	$ 5,027,971	$ 5,335,741	$ 230,395,965	$ 44,453,406	$ 274,849,371
1992	239,464,491	5,553,148	4,322,170	249,339,809	34,954,081	284,293,890
1993	258,536,407	5,948,855	5,304,422	269,789,684	39,454,960	309,244,644
1994	281,295,215	6,311,982	4,000,781	291,607,978	39,784,949	331,392,927
1995	315,636,011	6,311,914	2,843,789	324,791,714	83,413,799	408,205,513
1996	376,976,563	6,399,486	3,358,029	386,734,078	70,978,627	457,712,705
1997	398,471,144	7,424,424	4,626,452	410,522,020	26,174,454	436,696,474
1998	410,622,492	7,633,183	3,770,474	422,026,149	24,763,224	446,789,373
1999	431,410,418	8,055,791	4,581,030	444,047,239	39,151,493	483,198,732
2000	460,293,937	8,305,398	2,644,579	471,243,914	47,475,961	518,719,875

BENEFIT PAYMENTS BY RETIREMENT TYPE AND OPTION
RETIRED CONTRIBUTORY MEMBERS
As of March 31, 2000

Monthly Benefit	Number of Recipients	Type of Retirement *					Retirement Option						
		1	2	3	4	5	Max	Opt. 1	Opt. 2	Opt. 3	Opt. 4	Opt. 5	Other
$ 1 - 300	2,272	1,983	33	20	16	220	570	633	201	68	253	535	12
301 - 600	3,671	3,159	215	90	18	189	422	340	157	64	1,066	1,612	10
601 - 900	3,224	2,833	94	112	18	167	322	251	119	65	1,167	1,292	8
901 - 1,200	2,899	2,635	37	92	12	123	226	242	99	46	1,098	1,183	5
1,201 - 1,500	2,700	2,568	15	46	7	64	186	165	78	24	1,156	1,084	7
1,501 - 1,800	2,488	2,402	6	24	8	48	139	121	61	20	1,026	1,116	5
1,801 - 2,100	2,321	2,269	5	12	3	32	113	60	46	19	887	1,193	3
2,101 - 2,400	1,935	1,898	3	5	2	27	117	57	46	26	830	857	2
2,401 - 2,700	1,311	1,292	-	3	1	15	115	43	41	20	687	405	-
2,701 - 3,000	880	867	-	2	1	10	86	35	21	13	491	234	-
Over 3,000	1,388	1,361	-	3	2	22	142	65	92	50	721	318	-
Totals	25,089	23,267	408	409	88	917	2,438	2,012	961	415	9,382	9,829	52

* Type of Retirement

1 - Normal retirement for age & service
2 - Ordinary disability retirement
3 - Occupational disability retirement
4 - Survivor payment - death in service
5 - Survivor payment - normal or disability retirement

Note: Refer to Plan Summary in the Introductory Section for descriptions of the types of retirement and benefit options selected by the members.

BENEFIT PAYMENTS BY RETIREMENT TYPE AND OPTION
RETIRED NONCONTRIBUTORY MEMBERS
As of March 31, 2000

Monthly Benefit	Number of Recipients	Type of Retirement *					Retirement Option				
		1	2	3	4	5	Normal	Opt. A	Opt. B	Opt. C	Other
$ 1 - 300	567	376	39	24	59	69	232	91	146	30	68
301 - 600	825	598	103	17	25	82	421	120	202	54	28
601 - 900	450	355	47	3	12	33	254	74	82	28	12
901 - 1,200	336	284	22	-	4	26	180	60	61	33	2
1,201 - 1,500	317	289	10	-	2	16	167	58	60	32	-
1,501 - 1,800	366	350	6	-	1	9	243	59	34	29	1
1,801 - 2,100	371	362	1	-	-	8	266	34	30	41	-
2,101 - 2,400	169	166	-	-	-	3	125	18	17	9	-
2,401 - 2,700	90	87	-	-	1	2	45	30	11	4	-
2,701 - 3,000	66	66	-	-	-	-	43	12	6	5	-
Over 3,000	69	68	-	-	-	1	46	15	6	2	-
Totals	3,626	3,001	228	44	104	249	2,022	571	655	267	111

* Type of Retirement

1 - Normal retirement for age & service
2 - Ordinary disability retirement
3 - Occupational disability retirement
4 - Survivor payment - death in service
5 - Survivor payment - normal or disability retirement

Note: Refer to Plan Summary in the Introductory Section for descriptions of the types of retirement and benefit options selected by the members.

AVERAGE MONTHLY SERVICE PENSIONS BY YEARS OF CREDITED SERVICE

As of March 31	Years of Credited Service							
	0 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35+	All
1993								
Average Monthly Benefit	$180	$348	$567	$822	$1,232	$1,519	$1,571	$1,004
Number of Active Retirants	1,702	2,577	2,450	2,796	4,431	4,415	2,430	20,801
1994								
Average Monthly Benefit	$185	$364	$587	$854	$1,287	$1,597	$1,649	$1,057
Number of Active Retirants	1,647	2,626	2,507	2,834	4,591	4,611	2,467	21,283
1995								
Average Monthly Benefit	$191	$377	$609	$882	$1,388	$1,681	$1,772	$1,143
Number of Active Retirants	1,603	2,782	2,664	2,991	5,454	5,253	2,706	23,453
1996								
Average Monthly Benefit	$196	$387	$629	$911	$1,467	$1,170	$1,882	$1,220
Number of Active Retirants	1,554	2,865	2,724	3,090	6,068	5,758	2,867	24,926
1997								
Average Monthly Benefit	$201	$400	$659	$943	$1,539	$1,852	$1,985	$1,276
Number of Active Retirants	1,515	2,903	2,781	3,152	6,146	5,741	2,839	25,077
1998								
Average Monthly Benefit	$207	$411	$685	$978	$1,590	$1,918	$2,060	$1,321
Number of Active Retirants	1,457	2,932	2,823	3,190	6,181	5,764	2,826	25,173
1999								
Average Monthly Benefit	$212	$421	$710	$1,010	$1,645	$1,986	$2,143	$1,369
Number of Active Retirants	1,409	3,012	2,882	3,266	6,306	5,879	2,854	25,608
2000								
Average Monthly Benefit	$221	$426	$730	$1,032	$1,691	$2,044	$2,210	$1,414
Number of Active Retirants	1,368	3,107	2,941	3,336	6,435	6,139	2,936	26,262

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